DUBAI

ISLAMIC

BANK

- - - - - - - - - - -

ANNUAL

REPORT

= = = = = = = =

2012

IN THE NAME OF ALLAH,

THE MOST COMPASSIONATE,

THE MOST MERCIFUL.

The late H.H. Sheikh Zayed Bin Sultan Al Nahyan

The first President of the United Arab Emirates

'Mercy be upon him'

His Highness Sheikh Khalifa Bin Zayed Al Nahyan

President of the United Arab Emirates

Supreme Commander of the
United Arab Emirates Armed Forces

His Highness Sheikh Mohammed Bin Rashid Al Maktoum

Vice President & Prime Minister of the
United Arab Emirates and Ruler of Dubai

Contents

Chairman's Message

Assalam Alaikum wa Rehmatullah wa Barakatahu

The UAE economy grew strongly in 2012, reflecting the strategic vision and dynamic policies of the government. The economic growth of nearly 4% has been driven by the tourism, retail, trading and construction sectors, which in turn spurred growth across the financial services sector in the country, and positively impacted Dubai Islamic Bank's financial performance.

Dubai Islamic Bank (DIB) saw healthy growth across the bank's operations in 2012, and is comfortably positioned as the UAE's leading Islamic bank. The focus for DIB now is to capitalize on the momentum built over the last few years and become the most dynamic and progressive Islamic financial institution in the world.

In 2012, DIB reported a net profit of AED 1.19 billion, an increase of 13 per cent compared to AED 1.05 billion in 2011. DIB's total assets as of December 31, 2012 stood at AED 95.4 billion, compared to AED 90.6 billion at the end of the same period in 2011, an increase of 5.3 per cent.
The Bank's customer base grew steadily, with customer deposits reaching AED 66.8 billion as of December 31, 2012, an increase of 2.9 per cent over the previous year. The Bank continued to maintain a strong finance-to-deposit ratio of 83 per cent as of December 31, 2012 compared to 79 per cent on the same date in 2011.

With the continued proactive management of credit quality and impaired financing assets, the impaired ratio stood at 9.7 per cent as of December 31, 2012, compared to 11.6 per cent at the end of 2011. The Bank has continued its prudent provisioning policy with impairment charge for the year 2012 amounting to AED 1.04 billion, compared to AED 1.09 billion in 2011.
The improvement in these figures represents the efficiency of DIB's management in managing credit risks and finding economic solutions for customers.

As at December 31, 2012, DIB reported a capital adequacy ratio of 17.4 per cent, and a Tier I Capital ratio of 13.9 per cent. While capital adequacy ratio decreased due to the commencement of the capital amortisation of the Ministry of Finance Medium Term Wakala Finance, Tier 1 capital increased by 0.6 per cent in 2012. It is important to mention that DIB maintains a high capital adequacy ratio against the minimum requirements of 12 per cent set by the Central Bank of the UAE.

DIB successfully returned to the International Capital Markets in 2012. In March, the bank repaid in full a USD 750 million five-year Sukuk from its own sources, demonstrating the bank's financial strength and comfortable liquidity position. This was followed in May with the launch of a highly successful USD 500 million five-year Sukuk, which was oversubscribed more than four times, a notable achievement in light of volatile market conditions. DIB's healthy financial position was recognised by Fitch Ratings recently, which affirmed the bank's Long-term Issuer Default Rating at 'A' with a stable outlook.

The bank increased its UAE footprint by opening 9 new branches in 2012, bringing the bank's UAE-wide network to a total of 82 branches. Alternative banking channels continued to be a focus area for DIB in 2012. In January, the bank introduced Al Islami Business Online, a portal enabling companies to transact online, followed in April with the launch of the Arabic interface of DIB's internet-based banking service for individuals. The bank also launched its SME banking solutions, to support the financial needs of the small and medium sized businesses, which are a key driver of the UAE economy.

During 2012, DIB was involved in several benchmark Sukuk transactions including Jebel Ali Free Zone's US$650 million 7 year Islamic bond, Government of Dubai's US$1.25 billion Dual Tranche 5 year and 10 year Sukuk, Majid Al Futtaim's US$400 million 5 year debut Sukuk issuance and Emaar's US$500 million 7 year Sukuk.

2012 was another award winning year for DIB with the bank taking home numerous local and international accolades, including the awards for "Best Islamic Bank in the UAE" ; "Best Private Bank" ; "Best Sukuk Arranger" and "Best Distance Banking Service".

DIB has always strived to serve the needs of the community and maximize the returns to its shareholders. Keeping this in mind, the Board of Directors has recommended the distribution of a cash dividend of 15 per cent.

Moving ahead, DIB is committed to maintain its position as the pioneer in Islamic banking, through the launch of innovative products and services, branch expansion and by targeting new segments.

With a stable, well-diversified funding base in place, DIB will continue to make a meaningful contribution to the economic growth of the UAE by meeting the banking needs of all customers.

In conclusion, DIB would like to thank His Highness Sheikh Khalifa bin Zayed Al Nahyan, President of the UAE and Ruler of Abu Dhabi, and His Highness Sheikh Mohammed Bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai, for their strong support, guidance and clear strategic vision for the nation's economy.

Lastly, DIB would like to express gratitude to its management and staff, customers and shareholders, for their continued support and we look forward to continued success in the future.

Assalam Alaikum wa Rehmatullah wa Barakatahu

H. E. Mohammad A.Al Shaibani
Chairman, Dubai Islamic Bank

CEO's Report

Dear Shareholders,

Over the past 12 months, the people and the businesses of the UAE have benefited from an ever-improving economic picture enabled by the strong and decisive policy actions of the country's government.

For Dubai Islamic Bank, our investment in innovation over recent years continued to reap benefits and was an important factor in our strong 2012 performance. The bank saw healthy growth across a number of key areas, from our asset and deposit bases through to our net profit, which increased by 13 per cent year-on-year.

In our drive to be the most dynamic and forward-looking Islamic financial institution in the world, DIB invested heavily across all its distribution channels, making it easier for people to manage their finances and for companies to run their businesses.

The bank added nine additional branches to its UAE-wide network in 2012, while introducing new services such as Al Islami Business Online, a portal enabling companies to access more than 75 services at the click of a button.

We also unveiled Shaatir, our first account developed specifically for children. The account includes a number of innovative features designed to help young people understand financial responsibility from an early age.

A further highlight of the past year was the bank's heavily oversubscribed USD 500 million five-year Sukuk. With DIB's long-term funding needs secure, we will continue to develop products and services that represent the future of the Islamic Finance industry.

We look forward to another year of success at Dubai Islamic Bank, and we thank you, our esteemed shareholders, for your continued trust and support.

Abdulla Ali Al Hamli
Chief Executive Officer, Dubai Islamic Bank

Board of Directors

H.E. Mohammed Ibrahim Abdul Rahman Al Shaibani
Chairman, Board of Directors

Dr. Tariq Humaid Matar Mohammed Al Tayer
Vice Chairman, Board of Directors

Ahmad Mohammed Said Bin Humaidan
Member, Board of Directors

Yahya Said Ahmad Lootah
Member, Board of Directors

Khalid Ahmed Khalifa Al Suwaidi
Member, Board of Directors

Hamad Bin Abdullah Al Shamsi
Member, Board of Directors

Abdullah Al Sayid Mohammed Al Hashimi
Member, Board of Directors

Abdulaziz Al Muhairi
Member, Board of Directors

Abdullah Ali Al Hamli
Member, Board of Directors,
Chief Executive Officer

Executive Management

Abdulla Ali Obaid Alhamli - Board Member & Chief Executive Officer

Mohamed Al Nahdi - Deputy CEO – Chief Operating Officer

Dr. Adnan Chilwan – Deputy Chief Executive Officer

Obaid Khalifa Mohammed Rashed Alshamsi - Chief of Human Resources

Mohammed Saleem Qassim - Chief of Treasury

Syed Naveed Ali Hussain Ali - Chief of Corporate Banking

Mohamed Al Sharif - CEO – DIB Capital

Abbas Saifuddin Bhujwala - Chief Risk Officer

Salman Liaquat - Acting Head of Finance

Mostafa Mahmoud Mostafa - Chief of Group Internal Audit


Dubai Islamic Bank
بنك دبي الإسلامي

Bank Overview

"The most dynamic and forward-looking Islamic financial institution in the world"

In 1975, Dubai Islamic Bank (DIB) created history by becoming the first modern commercial Islamic bank in the world. Before this, customers had no choice but to use conventional banks for all their financial requirements. By incorporating Sharia principles into all its operations, DIB pioneered an alternative based on fairness and transparency. Nearly 40 years later, DIB has established itself as the undisputed leader in its field, setting the standards for others to follow, as the concept of Islamic banking has gathered momentum in the Arab world and internationally.

Across the world, DIB is recognised as a leader in the creation of high quality, flexible and accessible Islamic banking products and the certification of existing ones. DIB's products and services are not only Sharia-compliant, but also competitive with conventional products offered by other banks. Today, DIB services retail, commercial, corporate and institutional clients through dedicated divisions staffed by the industry's best professionals.

With its Johara ladies banking and Wajaha wealth management divisions, in addition to standalone Al Islami Private Banking branches, the bank possesses specialised departments for women and high-net-worth individuals respectively. Through its recently launched Shaatir Savings account, the bank also has a dedicated tool to help children understand financial responsibility from an early age. As the majority shareholder in Tamweel, the UAE-based Islamic home finance provider, DIB also plays a full and active role in the country's real estate sector.

Time and again, DIB has shown itself to be a bank of firsts. The bank launched Emirates REIT, Dubai's first real estate investment trust, and was an arranger in the first fully-UAE Islamic bank aircraft financing deal for the purchase of an A340-500 by Emirates Airline.

A leader in the global financial services industry

Through its focus on innovation and excellence, DIB has gone from pioneer of Islamic finance to attaining the status of the UAE's largest Islamic bank with a network of 82 branches located conveniently across the country.

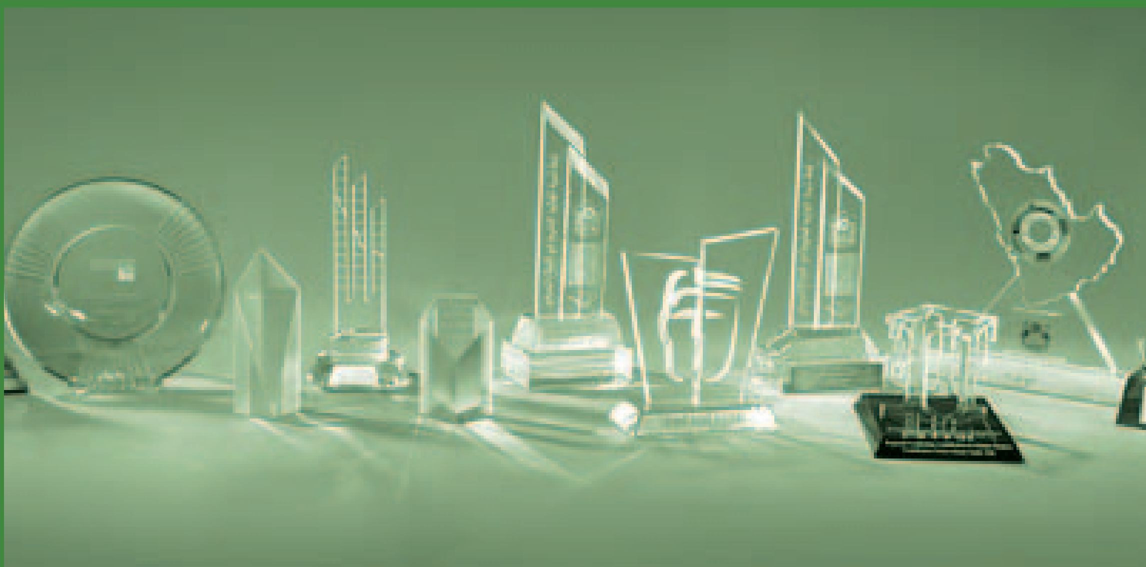
In the past year, new DIB branches were opened in:

- Al Karama
- Dubai Airport Terminal 3
- Al Fahidi
- Emirates Headquarters
- Mall of Emirates
- Hatta
- Al Khan
- Sharjah City Centre
- Al Qarain

As DIB's branch network has expanded so too has the number of alternative banking channels available to customers. DIB's Express Banking Terminals, for instance, were developed to give customers 24-hour access to a wide range of banking services usually only available in branch, online, or through phone banking, such as to print statements, request cheque books and supplementary cards, and transfer funds. In 2012, the bank launched Al Islami Business Online, a portal designed to help businesses in the UAE easily manage their finances by giving access over 75 services at the click of a button.

The bank has also witnessed significant international growth. A global expansion strategy began with the establishment of DIB Pakistan Limited, a wholly owned subsidiary of DIB which today has a network of 93 branches across 30 major cities in Pakistan, and has continued with the establishment of operations in Jordan and the creation of Jordan Dubai Islamic Bank.

Alongside its accomplishments as a commercial organisation, DIB has always recognised its wider role in society. The bank supports the communities in which it operates through the DIB Foundation, a non-profit social, humanitarian and charitable organisation which distributes millions of dirhams to good causes at home and abroad each year.



The UAE's number one Islamic bank

For its contribution to both the banking industry and the wider community, DIB has earned the respect of its peers around the world. The bank's leading position has been reaffirmed by the more than 160 local, regional and international accolades that it has won since 2004. DIB has won awards across diversified areas, including retail, corporate and investment banking, as well as CSR and consultancy services. Awards won by DIB in 2012 included:

Islamic Finance News: "Corporate Finance Deal of the Year," "Restructuring Deal of the Year," and "Structured Finance Deal of the Year"

Banker Middle East Product Awards 2012: "Best Distance Banking Service" and "Best Structured Product"

Asiamoney's Islamic Award: "Best Islamic Bank in the UAE"

The Banker: Named among "Deals of the Year for 2012" for role as the Islamic arranger of a US$800 million Wakala Syndicated Financing for Salik One

Islamic Finance Awards 2012: "Best Islamic Bank, UAE"

Banker Middle East Industry Awards: "Best Islamic Bank in the region"

J.P. Morgan: Quality Recognition Award

CCR Credit Excellence Awards 2012: "International Credit Management"

Mediterranean Awards for Global Excellence in Islamic Finance: Dar Al Sharia Legal & Financial Consultancy named "Best Sharia Advisory Firm"

2012 Islamic Business & Finance Awards: "Best Sukuk Arranger" and "Best Private Bank"

Proud of our past, focused on the future

While DIB is an institution that is deeply proud of its achievements, its success has always been built on looking towards the future. The consensus among most industry experts is that that the global Islamic finance industry will expand significantly over the coming years. As such, DIB is excellently positioned to benefit from the increasing demand for the products and services that it pioneered.

Nearly four decades after its creation, DIB can rightly take credit for pioneering the concepts of Islamic banking and finance. Moreover, by successfully combining traditional Islamic values with the technology and innovation that characterise the best of modern banking, DIB today proudly competes on an equal basis with the world's largest conventional banks.

Performance Excellence Award

"Recognising the excellence of our employees"

Dubai Islamic Bank launched Performance Excellence Award (PEA) in 2002 in an effort to create a platform for the development of staff and to provide the highest standards of service and customer satisfaction. The PEA is an opportunity to reward employees, departments, branches, projects and subsidiaries who have demonstrated exceptional commitment towards achieving excellence, and for their contribution in reinforcing the bank's position as the number one Islamic financial institution in the UAE as well as an icon of the global Islamic banking industry.

Recently, the Performance Excellence Award scheme was comprehensively revamped to introduce the culture of organisational excellence by aligning it to the global best practices of European Foundation for Quality Management (EFQM) and the Dubai Quality Award excellence model, and inspired by Dubai Islamic Bank's vision, mission and values.

This year's categories include Best Branch Best Support Department, Best Business Department, Best Project, Best Subsidiary, Best Employee, CEO Award and Long Service Award.

Presided over by His Excellency Mohammed Ibrahim Al Shaibani, Director-General of His Highness The Ruler's Court of Dubai and Chairman of DIB, 2012's awards ceremony was attended by more than 1,500 employees with 23 winners from across all areas of the bank being honored for their contributions.

Categories include:

- Best Employee
- Best Branch
- Best Support Department
- Best Business Department
- Best Project
- Best Subsidiary
- The CEO's Award
- Long Service Award

Coporate Social Responsibility

"A commitment to community service"

In 2012, our non-profit charitable subsidiary, the DIB Foundation, continued to work tirelessly to support disadvantaged people in the UAE and abroad. For instance, we helped 249 families with educational fees, 75 families to pay rent on their homes, settled fees of 34 medical cases, and supplied medical and X-ray equipment to five hospitals and medical centres. The bank also purchased three buses to support charities in the UAE.

Our Al Qard al Hassan fund continued to help Muslims in financial difficulties. Al Qard al Hassan is an interest-free loan in accordance with the Islamic jurisprudence to assist DIB customers to overcome their financial problems so as to save them from undesirable circumstances and exploitation. The fund also aims to facilitate social needs like marriage and education. In 2012, our Our Al Qard al Hassan fund helped 44 marriages, 499 medical treatments, and 317 people with their educational fees.

The bank's longstanding involvement in Ramadan-related activities continued in 2012, with 17 charities in the UAE receiving Zakat contributions, including the Khalifa Bin Zayed Al Nahyan Foundation, Noor Dubai Foundation (NDF), Beit Al Khair Society, Dar Al Ber Society Dubai, the Mohammad Bin Rashid Charity and Humanitarian Establishment, Al Maktoum Charity Organization, UAE Red Crescent, Sharjah City for Humanitarian Services, Human Appeal International, Umm Al Quwain Charity Association, Ras Al Khaimah Charity Foundation, Fujairah Charity Association, Al Ihsan Charity Association


Dubai Islamic Bank PJSC
بنك دبي الإسلامي
Johara
Ladies Banking

Branch list

Dubai
Main Branch(Deira)
Al Souq
Shaikh Zayed Rd.
Bur Dubai
Jumeriah (Ladies Branch)
Al Barsha
Dubai Internet City
Al Twar
Al Diyafa Road
Ras Al-Khor
Salahuddin Road
Umm Suqeim
Ibn Battuta Mall
Al Ittihad
Abu Hail (Ladies Branch)
Oud Metha
Jumeirah Beach Residence
Dubai Industrial City
Dubai Silicon Oasis
Nad Al Hamar
Emaar Business Park
Dubai International City
Al Nahda
Mirdif City Center
Al Qusais
Al Lisaili
Muhaisnah Al Ittihad Mall
Al Mamzar
Al Maktoum Road Branch (*Exclusively for Al Islami Private Banking Customers)*
Dubai Mall
Gold Souk
Union Co-operative Society, Al Barsha
Al Baraha
Al Karama
Dubai Airport Terminal 3
Al Fahidi
Emirates Headquarters
Mall of Emirates
Union Cooperative Society - Al Safa
Union Cooperative Society - Al Aweer

Abu Dhabi & Al Ain
Abu Dhabi
Al Salam
Baniyas
Khalidiya (Ladies Branch)
Abu Dhabi Corniche
Musaffah
Al Muroor
Madinat Zayed
Shahama
Al Ain
Al Ain Mall
Al Jimi (Ladies Branch)
Al Yahar
Al Ain Industrial
Al Foah Mall
Hatta

Sharjah & Northern Emirates
Sharjah
Wasit Road
Al Ghubaiba (Ladies Branch)
Al Taawun
Al Buhairah
Sharjah Clock Tower
Al Khan
Sharjah City Centre
Al Qarain
Al Heera (Ladies Branch)
Hamriya Free Zone
Al Dhaid
Al Madam
Al Moweileh
Sahara
Kalba
Ajman
Al Nuaimiyah
Ras Al Khaimah
RAK (Ladies Branch)
Khuzam
Al Hamra Mall
Umm Al Quwain
Khor Fakkan
Fujairah
Dibba, Fujairah

Other Subsidiaries and Associate Contacts

Dar Al Sharia
P.O. Box 12988 Dubai
United Arab Emirates
Tel: +971 4 210 7333
Fax: +971 4 295 1580
Website: www.daralsharia.com

Tamweel
P.O. Box 111555 Dubai
United Arab Emirates
Tel: +971 4 294 4400
Fax: +971 4 362 0548
Website: www.tamweel.ae

Deyaar
P.O. Box 30833 Dubai
United Arab Emirates
Tel: +971 4 395 7700
Fax: +971 4 395 7711
Website: www.deyaar.ae

Dubai Islamic Financial Services
P.O. Box 117949 Dubai
United Arab Emirates
Tel: +971 4 321 7000
Fax: +971 4 397 5691
Website: www.difs.ae

DIB Capital Ltd.
P.O. Box 121299 Dubai
United Arab Emirates
Tel: +971 4 363 4100
Fax: +971 4 362 0548
Website: www.dibcapital.com

Emirates REIT
P.O. Box 482015 Dubai
United Arab Emirates
Tel: +971 4 358 8775
Fax: +971 4 358 8774
Website: www.reit.ae

Jordan Dubai Islamic Bank
P.O. Box 1982 Amman 11118
Jordan
Tel: +962 6 460 2200
Fax: +962 6 464 7821
Website: www.jdib.jo

DIB Pakistan Limited
Pakistan
Tel: +92 11 178 6342
Website: www.dibpak.com

DIB's Fatwa & Sharia Supervision Board's Report presented to the General Assembly for year 2012

1. Fatwas and decisions:

The Fatwa & Sharia Supervision Board (the "Board") has answered the questions and queries it received from various departments within the Bank and issued the appropriate Fatwas and decisions in relation thereto.

2. Finance Structuring and documentation preparation:

The Board has studied all transactions referred to it. It has reviewed the transactions and approved their finance structure, contracts and documents.

3. Sukuk issuances:

The Board has reviewed the Sukuk the Bank's Management has planned to purchase, and decided on restructuring these Sukuk, their documents and their prospectuses. The Board has also verified that these Sukuk are Sharia-compliant and are not in breach of the Board's Fatwas. Therefore, the Board gave the Bank permission to invest in these Sukuk.

4. Training:

The Bank's management has executed basic training courses prepared by the Board, which led to a significant decrease in breaches and violations of Sharia principles.

5. Development of products:

The Board, in collaboration with the management, has sought to develop the existing products and innovate new ones that keep pace with developmental plans, pursue progress in the field of Islamic financial industry and that consider the circumstances and repercussions of the global financial crisis in order to fulfill the clients' interests and meet their new progressing requirements.

6. Supervision and Sharia Auditing:

6.1 The Board has viewed the Sharia supervision and audit reports pertaining to the Bank's transactions carried during the year and raised its observations on the reports. The Bank's management has expressed its willingness to comply with the observations and comments of Board.

6.2 The Board has forfeited, as it saw fit, the transaction profits in which the Sharia violations were sever and made without a proper justification from the violator's part, and decided that such forfeited profits must be paid to charity.

7. Banking Services fees:

The Board has reviewed the Sharia audit report pertaining to the banking services offered by the Bank during the year as well as the fees it received for these services.

8. Review of books and records:

The Board has reviewed what it has requested from the Bank's books, records and documents and obtained the relevant data and information needed to conduct its Sharia audit and supervision role.

9. Review of budget:

9.1 The management has prepared the balance sheet and the profits and losses account for 2012. The Board has, in turn, reviewed the items of the budget, financial statements and the profits and losses account. The Board carefully analyzed the accounting policies enacted to establish budgets as well as the distribution of profits among shareholders and depositors. The Board concluded that the financial statements had been prepared in accordance with the information the management provided and was presented as per the established process of due diligence necessary to obtain the Board's confirmation that the financial statements represent the Bank's assets and revenues. The accuracy and reliability of data and information used herein is the responsibility of the Management.

9.2 According to the Bank's Articles of Association, the Board has reviewed the calculation of the Zakat payable by the Bank's Management on behalf of the Shareholders in accordance with Sharia principles. However, the Zakat on the Bank's capital and this year's profit is the shareholders' responsibility. The Board has calculated the amount of Zakat payable per share for the shareholders to be notified with the same.

10. The Board's opinion:

The Board confirms that it is the Management's responsibility to ensure the application of Sharia and executing the Board's Fatwas in all activities carried out by the Bank. The Board also decides that the Bank's activities and transactions carried out throughout the year are not in breach of Sharia principles and the Fatwas of the Board, in regards to the cases referred to it, the data it acquired, the auditing it performed, the observations it raised, and the responses the Bank's departments expressed towards implementing and complying with such observations.

Dr. Hussein Hamid Hassan
Chairman
DIB Fatwa & Sharia Supervision Board

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2012.

CONTENTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Dubai Islamic Bank P.J.S.C. (the "Parent") and its subsidiaries (together referred to as the "Bank"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly in all material respects, the financial position of Dubai Islamic Bank P.J.S.C. and its subsidiaries as at 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

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

Deloitte & Touche (M.E.)

Anis Sadek
Registration Number 521
4 February 2013

Dubai Islamic Bank P.J.S.C.
Consolidated statement of financial position
as at 31 December 2012

	Notes	2012 AED'000	2011 AED'000 (Restated)
ASSETS			
Cash and balances with central banks	6	**15,473,549**	12,952,319
Due from banks and financial institutions	7	**3,169,114**	3,043,096
Islamic financing and investing assets, net	8	**55,560,103**	51,507,049
Investments in Islamic sukuk measured at amortised cost	9	**11,088,662**	12,688,111
Other investments	10	**2,144,871**	2,034,389
Investments in associates	11	**2,294,028**	2,336,439
Properties held for sale	12	**224,909**	609,756
Investment properties	13	**1,931,808**	1,785,205
Receivables and other assets	14	**2,920,298**	3,050,690
Property and equipment	15	**557,357**	581,410
Total assets		**95,364,699**	90,588,464
LIABILITIES AND EQUITY			
LIABILITIES			
Customers› deposits	18	**66,800,852**	64,929,839
Due to banks and financial institutions	19	**6,158,289**	4,052,433
Sukuk financing instruments	20	**4,673,960**	4,173,983
Medium term wakala finance	21	**3,752,543**	3,752,543
Payables and other liabilities	22	**3,255,628**	3,384,833
Zakat payable	24	**163,572**	121,076
Total liabilities		**84,804,844**	80,414,707
EQUITY			
Share capital	25	**3,797,054**	3,797,054
Other reserves	26	**5,348,964**	5,348,964
Investments fair value reserve	27	**(820,130)**	(831,849)
Exchange translation reserve	28	**(191,488)**	(122,218)
Retained earnings		**1,454,162**	943,484
Equity attributable to equity holders of the Parent		**9,588,562**	9,135,435
Non-controlling interests	30	**971,293**	1,038,322
Total equity		**10,559,855**	10,173,757
Total liabilities and equity		**95,364,699**	90,588,464

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

H. E. Mohammad A.Al Shaibani
Chairman

Dr. Tarek Humaid Al Tayer
Vice Chairman

Abdulla Ali Al Hamli
Chief Executive Officer

Dubai Islamic Bank P.J.S.C.
Consolidated income statement
for the year ended 31 December 2012

	Notes	2012 AED'000	2011 AED'000 (Restated)
INCOME			
Income from Islamic financing and investing assets	32	**3,286,436**	3,448,506
Income from investments in Islamic sukuk		**621,465**	517,332
Income from International murabahats and wakala, short term	33	**55,359**	83,133
Gain from other investments, net	34	**59,918**	39,036
Commissions, fees and foreign exchange income	35	**733,365**	700,587
Income from investment properties	36	**98,209**	70,042
Income from sale of properties held for sale, net	37	**15,123**	15,390
Other income	38	**156,449**	130,837
Total income		**5,026,324**	5,004,863
EXPENSES			
Personnel expenses	39	**(914,837)**	(908,883)
General and administrative expenses	40	**(476,953)**	(443,096)
Depreciation of investment properties	13	**(31,351)**	(24,205)
Depreciation of property and equipment	15	**(99,196)**	(120,313)
Impairment loss on financial assets, net	41	**(972,633)**	(994,964)
Impairment loss on non-financial assets, net	42	**(70,495)**	(91,948)
Total expenses		**(2,565,465)**	(2,583,409)
Profit before depositors' and sukuk holders' share of profits, share of profit from associates and income tax		**2,460,859**	2,421,454
Depositors' and sukuk holders share of profits	43	**(1,316,205)**	(1,386,808)
Operating profit for the year		**1,144,654**	1,034,646
Share of profit from associates	11	**60,301**	28,551
Profit for the year before income tax		**1,204,955**	1,063,197
Income tax expense	23	**(12,801)**	(6,782)
Profit for the year		**1,192,154**	1,056,415
Attributable to:			
Equity holders of the Parent		**1,150,072**	1,010,141
Non-controlling interests		**42,082**	46,274
Profit for the year		**1,192,154**	1,056,415
Basic and diluted earnings per share (AED per share)	44	**AED 0.30**	AED 0.26

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

Dubai Islamic Bank P.J.S.C.
Consolidated statement of comprehensive income
for the year ended 31 December 2012

	2012	2011
	AED'000	AED'000
		(Restated)
Profit for the year	**1,192,154**	1,056,415
Other comprehensive income/(loss) items		
Currency translation differences of foreign operations	**(69,270)**	(30,677)
Reclassification of cash flow hedging reserve to profit or loss	**-**	(10,656)
Fair value income/(loss) on other investments carried at FVTOCI	**11,719**	(146,724)
Directors' remuneration	**(5,350)**	(5,350)
Total other comprehensive loss for the year	**(62,901)**	(193,407)
Total comprehensive income for the year	**1,129,253**	863,008
Attributable to:		
Equity holders of the Parent	**1,087,171**	816,734
Non-controlling interests	**42,082**	46,274
Total comprehensive income for the year	**1,129,253**	863,008

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

Dubai Islamic Bank P.J.S.C.
Consolidated statement of changes in equity
for the year ended 31 December 2012

	Share capital	Other reserves	Investments fair value reserve	Exchange translation reserve	Hedging reserve	Retained earnings	Attributable to equity holders of the Parent	Non-controlling interests	Total Equity
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Balance at 1 January 2011 (Restated)	3,797,054	5,358,018	(243,166)	(91,541)	10,656	495,058	9,326,079	947,008	10,273,087
Effect of the change in accounting policy for classification and measurement of financial assets - IFRS 9 (note 54.1)	-	-	(441,973)	-	-	(36,070)	(478,043)	-	(478,043)
Balance at 1 January 2011 after IFRS 9 effect (Restated)	3,797,054	5,358,018	(685,139)	(91,541)	10,656	458,988	8,848,036	947,008	9,795,044
Profit for the year	-	-	-	-	-	1,010,141	1,010,141	46,274	1,056,415
Other comprehensive loss for the year	-	-	(146,724)	(30,677)	(10,656)	(5,350)	(193,407)	-	(193,407)
Total comprehensive income for the year	-	-	(146,724)	(30,677)	(10,656)	1,004,791	816,734	46,274	863,008
Additions in the non-controlling interest	-	-	-	-	-	-	-	61,383	61,383
ransfer from investments revaluation reserve to retained earnings	-	-	14	-	-	(14)	-	-	-
Disposal of donated land reserve	-	(9,054)	-	-	-	-	(9,054)	-	(9,054)
Dividends paid (note 29)	-	-	-	-	-	(379,705)	(379,705)	(2,952)	(382,657)
Zakat payable (note 24)	-	-	-	-	-	(140,576)	(140,576)	(13,391)	(153,967)
Balance at 31 December 2011 (Restated)	3,797,054	5,348,964	(831,849)	(122,218)	-	943,484	9,135,435	1,038,322	10,173,757
Profit for the year	**-**	**-**	**-**	**-**	**-**	**1,150,072**	**1,150,072**	**42,082**	**1,192,154**
Other comprehensive loss for the year	**-**	**-**	**11,719**	**(69,270)**	**-**	**(5,350)**	**(62,901)**	**-**	**(62,901)**
Total comprehensive income for the year	**-**	**-**	**11,719**	**(69,270)**	**-**	**1,144,722**	**1,087,171**	**42,082**	**1,129,253**
Additions in non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**110,364**	**110,364**
Disposal of non-controlling interest (note 17 (d))	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(180,605)**	**(180,605)**
Dividends paid (note 29)	**-**	**-**	**-**	**-**	**-**	**(474,632)**	**(474,632)**	**(24,570)**	**(499,202)**
Zakat payable (note 24)	**-**	**-**	**-**	**-**	**-**	**(159,412)**	**(159,412)**	**(14,300)**	**(173,712)**
Balance at 31 December 2012	**3,797,054**	**5,348,964**	**(820,130)**	**(191,488)**	**-**	**1,454,162**	**9,588,562**	**971,293**	**10,559,855**

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

Dubai Islamic Bank P.J.S.C.
Consolidated statement of cash flows
for the year ended 31 December 2012

	2012 AED'000	2011 AED'000 (Restated)
Operating activities:		
Profit for the year before income tax	**1,204,955**	1,063,197
Adjustments for:		
Net impairment loss on financial assets, net	**972,633**	994,964
Net impairment loss on non-financial assets, net	**70,495**	91,948
Depreciation of property, plant and equipment	**99,196**	120,313
Depreciation of investment properties	**31,351**	24,205
Provision for employees' end-of-service benefits	**19,268**	19,248
Gain on disposal of investment in Islamic sukuk	**(37,058)**	(712)
Dividend income	**(21,033)**	(35,679)
Share of profit from associates	**(60,301)**	(28,551)
Gain on disposal of associates	**(4,791)**	-
Gain on disposal of properties held for sale	**(15,123)**	(15,390)
Amortisation of sukuk instruments issued by a subsidiary	**5,957**	16,333
Gain on disposal of subsidiaries	**(3,375)**	-
Write off of property and equipment	**259**	717
Amortisation of hedging reserve	**-**	(10,656)
Revaluation of investments at fair value through profit or loss	**(313)**	541
Gain on disposal of property and equipment	**(351)**	(245)
Gain on disposal of investments at fair value through profit or loss	**(1,514)**	(3,186)
Operating cash flow before changes in operating assets and liabilities	**2,260,255**	2,237,047
Net movement in deposits and International murabahat with original maturities above three months	**(1,868,069)**	(3,401,770)
(Increase)/decrease in Islamic financing and investing assets	**(5,019,990)**	4,582,866
Decrease/(increase) in receivables and other assets	**1,390**	(33,174)
Increase in customers' deposits	**2,007,844**	1,223,168
Increase/(decrease) in due to banks and financial institutions	**2,345,405**	(356,994)
(Decrease)/increase in payables and other liabilities	**(138,334)**	18,969
Cash (used in)/generated from operating activities	**(411,499)**	4,270,112
Employees' end-of-service benefits paid	**(4,706)**	(10,833)
Tax paid	**(5,652)**	(6,017)
Net cash (used in)/generated from operating activities	**(421,857)**	4,253,262

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

Dubai Islamic Bank P.J.S.C.
Consolidated statement of cash flows
for the year ended 31 December 2012 (continued)

	2012 AED'000	2011 AED'000 (Restated)
Investing activities		
Purchase of investments in Islamic sukuk	**(2,235,776)**	(4,730,837)
Proceeds from disposal of investments in Islamic sukuk	**3,830,583**	286,913
Proceeds from disposal of investments at FVTPL	**80,341**	18,580
Purchase of investments carried at FVTOCI	**(4,591)**	(58,066)
Dividend received	**31,615**	46,336
Additions to properties held for sale	**(18,912)**	(49,497)
Proceeds from disposal of properties held for sale	**27,341**	30,686
Proceeds from disposal of investment properties	**-**	2,658
Additions to investment properties	**(124,095)**	(203,503)
Purchase of property and equipment	**(80,867)**	(58,138)
Proceeds from disposal of associates	**29,109**	-
Purchase of investments in associates	**(10,665)**	-
Proceeds from disposal of property and equipment	**870**	964
Net cash generated from/(used in) investing activities	**1,524,953**	(4,713,904)
Financing activities		
Dividends paid	**(499,202)**	(382,657)
Sukuk financing instrument issued during the year	**2,847,707**	-
Sukuk financing instrument repaid during the year	**(2,357,075)**	-
Zakat paid	**(118,629)**	(180,711)
Net cash used in financing activities	**(127,199)**	(563,368)
Increase/(decrease) in cash and cash equivalents	**975,897**	(1,024,010)
Cash and cash equivalents at 1 January	**9,473,570**	10,483,681
Net foreign exchange difference	**(29,161)**	13,899
Cash and cash equivalents at 31 December (Note 45)	**10,420,306**	9,473,570

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

1 General information

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

The accompanying consolidated financial statements combine the activities of the Parent and its subsidiaries (note 17) (together referred to as the "Bank").

The Bank's entities provide various types of retail and corporate banking services, and investment banking services in primarily the U.A.E. The principal activities of the Bank's entities are described in note 17.

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

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

2.1 Revised IFRSs applied with no material effect on the consolidated financial statements

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

Revised IFRSs	**Summary of requirement**
Amendments to IFRS 7 *Financial Instruments : Disclosure - Transfer of Financial Assets*	The amendments increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred, but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. The adoption of the amendments has had no effect on these consolidated financial statements as the Bank were not engaged in transactions involving transfers of financial assets where the Bank retains some level of continuing exposure in the asset during the current or previous years.
Amendments to IAS 12 *Deferred Tax - Recovery of Underlying Assets*	The amendments provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances. The adoption of the amendments has had no material effect on these consolidated financial statements as the Bank's investment properties are measured by using the cost method.

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

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
• Amendments to IFRS 7 *Financial Instruments: Disclosure* - Enhancing Disclosures about Offsetting of Financial Assets and Financial Liabilities.	1 January 2013
• IFRS 10 *Consolidated Financial Statements* & IAS 27 (as revised in 2011) *Separate Financial Statements* – IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and SIC 12 *Consolidation – Special Purpose Entities.* Under IFRS 10, there is only one basis for consolidation, which is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios. The management is still in the process of analysing the impact of this standard on the consolidated financial statements of the Bank.	1 January 2013
• IFRS 11 *Joint Arrangements* – The standard replaces IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers.* IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting. The application of IFRS 11 will result in changes in the accounting of the Bank's jointly controlled entity that is currently accounted for using the proportionate consolidation method.	1 January 2013

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

2.2 New and revised IFRSs is in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
• IFRS 12 *Disclosure of interests in other entities* - the standard is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards. However, the management have not yet performed a detailed analysis of the impact of the application of this standard on the Bank's consolidated financial statements and hence have not yet quantified the extent of the impact.	1 January 2013
• IFRS 13 *Fair Value Measurement* – the standard establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of this standard is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in the standard are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope. The management anticipates that the application of this standard will not materially affect the amounts reported in the consolidated financial statements, but will extend fair-value-related disclosures in the consolidated financial statements.	1 January 2013
Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of interests in other entities* and IAS 27 (as revised in 2011) *Separate Financial Statements* - exemption from the requirement to consolidate subsidiaries for eligible investment entities (such as mutual funds, unit trusts, and similar entities), instead requiring the use of the fair value to measure those investments The management is still in the process of analysing the impact of this standard on the consolidated financial statements of the Bank.	1 January 2014

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

2.2 New and revised IFRSs is in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
• Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* - These amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.	1 July 2012
• IAS 19 (as revised in 2011) *Employee Benefits* - These amendments change the accounting for defined benefit plans and termination benefits. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. The amendments require retrospective application with certain exceptions.	1 January 2013
• IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*	1 January 2013
• Amendments to IAS 32 *Financial Instruments : Presentation – Offsetting of Financial Assets and Financial Liabilities*	1 January 2014
• Amendments to IAS 1 *Presentation of Financial Statements* (comparative information); IAS 16 *Property, Plant and Equipment* (servicing equipment); IAS 32 *Financial Instruments – Presentation* (tax effect of equity distribution); and IAS 34 I*nterim Financial Reporting* (interim reporting of segment assets) resulting from annual improvements 2009-2011 cycle.	1 January 2013
• IFRIC 20 Stripping *Costs in the Production Phase of a Surface Mine*	1 January 2013

3 Definitions

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

3.1 Murabaha

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

3.2 Salam finance

An agreement whereby the Bank purchases a fixed quantity of a specified commodity and pays the full price of the commodity in advance, whereas the customer delivers the quantity of the commodities in accordance with an agreed delivery schedule.

3.3 Istisna'a

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

3.4 Ijarah

3.4.1 Ijarah Muntahiya Biltamleek

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

3.4.2 Forward Ijarah

Forward Ijarah is an agreement whereby the Bank (the "Lessor") agrees to provide, on a specified future date, a certain described asset on lease to the customer (the "Lessee") upon its completion and delivery by the developer or contractor, from whom the Bank has purchased the same. The arrangement could end by transferring the ownership of the asset to the customer (Lessee).

3.5 Musharaka

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

3 Definitions (continued)

3.6 Mudaraba

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

3.7 Wakala

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

3.8 Sukuk

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

4 Significant accounting policies

4.1 Statement of compliance

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

4.2 Basis of preparation

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

The consolidated financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands dirham, except when otherwise indicated.

The principal accounting policies are set out below.

4.3 Presentation of consolidated financial statements

The Bank presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 49 to these consolidated financial statements.

4 Significant accounting policies (continued)
4.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Parent and entities (including special purpose entities) controlled by the Parent (its subsidiaries). Control is achieved where the Parent has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

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

When the Bank loses control of a subsidiary, a gain or loss is recognised in the consolidated income statement and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Bank had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

4.5 Fiduciary activities

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

4 Significant accounting policies (continued)
4.6 Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Bank's share of the profit or loss and other comprehensive income of the associate. When the Bank's share of losses of an associate exceeds the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate), the Bank discontinues recognizing its share of further losses. Additional losses are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

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

The requirements of International Financial Reporting Standards are applied to determine whether it is necessary to recognise any impairment loss with respect to the Bank's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 I*mpairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Bank losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IFRS 9. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Bank accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Bank reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a Bank's entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Bank' consolidated financial statements only to the extent of interests in the associate that are not related to the Bank.

4.7 Interests in joint ventures

A joint venture is a contractual arrangement whereby the Bank and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

4 Significant accounting policies (continued)

4.7 Interests in joint ventures (continued)

The Bank reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The Bank's share of the assets, liabilities, income and expenses of jointly controlled entities is combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Any goodwill arising on the acquisition of the Bank's interest in a jointly controlled entity is accounted for in accordance with the Bank's accounting policy for goodwill arising in a business combination.

When a Bank's entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Bank' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Bank.

4.8 Financial instruments

Financial assets and liabilities are recognised when a Bank's entity becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

4.9 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

4.9.1 Classification of financial assets

Financing instruments that meet the following conditions are subsequently measured at amortised cost less impairment loss and deferred income, if any (except for those assets that are designated as at fair value through profit or loss on initial recognition):

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

Financial assets measured at amortized cost include 'balances with central banks', 'due from banks and financial institutions', 'Islamic financing and investing assets', 'investments in Islamic sukuk' and certain 'receivables and other assets'.

All other financial assets are subsequently measured at fair value.

4 Significant accounting policies (continued)
4.9 Financial assets (continued)
4.9.2 Amortized cost and effective profit rate method

The effective profit method is a method of calculating the amortised cost of those financial instruments measured at amortized cost and of allocating income over the relevant period. The effective profit rate is the rate that is used to calculate the present value of the estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financing and investing instruments, or, where appropriate, a shorter period, to arrive at the net carrying amount on initial recognition.

Income is recognised on an effective profit basis for financing and investing instruments measured subsequently at amortised cost. Income is recognised in the consolidated income statement.

4.9.3 Financial assets at fair value through other comprehensive income (FVTOCI)

On initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

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

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve in equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments.

Dividends on these investments in equity instruments are recognised in profit or loss when the Bank's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends earned are recognised in the consolidated income statement and are included in the 'gain from other investments' line item.

4.9.4 Financial assets at fair value through profit or loss (FVTPL)

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

Financing instruments that do not meet the amortised cost criteria (see above) are measured at FVTPL. In addition, financing instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. Financing instruments may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Bank has not designated any financing instrument as at FVTPL.

4 Significant accounting policies (continued)
4.9 Financial assets (continued)
4.9.4 Financial assets at fair value through profit or loss (FVTPL) (continued)

Financing assets are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of financing instruments that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included in the 'gain from other investments' line item in the consolidated income statement. Fair value is determined in the manner described in note 51 to these consolidated financial statements.

Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated income statement when the Bank's right to receive the dividends is established in accordance with IAS 18 *Revenue* and is included in the consolidated income statement as disclosed above.

4.9.5 Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in consolidated income statement; and
- for financial assets that designated as at FVTOCI, any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated financial instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated income statement.

4.9.6 Impairment of financial assets

Financial assets (including financing and investing assets, investments in Islamic sukuk, balances due from banks and financial institutions, balances with central banks and other assets) that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets measured at amortized cost are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in profit or principal payments;
- it becoming probable that the customer will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

4 Significant accounting policies (continued)
4.9 Financial assets (continued)
4.9.6 Impairment of financial assets (continued)

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, calculated using the financial asset's original effective profit rate.

The carrying amount of the financial asset measured at amortized cost is reduced by the impairment loss directly for all financial assets with the exception of Islamic financing and investing assets, where the carrying amount is reduced through the use of an allowance account. When the Islamic financing and investing assets are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

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

4.9.6.1 Individually assessed Islamic financing and investing assets

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

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

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

4 Significant accounting policies (continued)
4.9 Financial assets (continued)
4.9.6 Impairment of financial assets (continued)
4.9.6.2 Retail Islamic financing and investing assets with common features and which are not individually significant

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

4.9.6.3 Incurred but not yet identified

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

4.9.6.4 Renegotiated financing facilities

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

4.9.7 Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised Islamic financing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated income statement.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve in equity is not reclassified to the consolidated income statement, but is transferred to retained earnings within equity.

4 Significant accounting policies (continued)
4.10 Financial liabilities and equity instruments
4.10.1 Classification as liability or equity

Liability and equity instruments issued by the Bank are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

4.10.2 Equity instruments

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

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

4.10.3 Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective profit rate method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantee contracts issued by the Bank, and commitments issued by the Bank to provide a facility at below-market profit rate are measured in accordance with the specific accounting policies set out below.

4.10.3.1 Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective profit rate method. Customers' share of profit that is not capitalised as part of costs of an asset is included in the consolidated income statement.

The effective profit rate method is a method of calculating the amortised cost of a financial liability and of allocating customers' share of profit over the relevant period. The effective profit rate is the rate that is used to calculate the present value of estimated future cash payments (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs through the expected life of the financial liability, or (where appropriate) a shorter period, to arrive at the net carrying amount on initial recognition.

Financial liabilities measured at amortised cost include 'due to banks and financial institutions', 'customers' deposits', 'sukuk financing instruments', 'medium term wakala finance' and certain 'payables and other liabilities'.

4.10.3.2 Convertible sukuk financing instruments

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

4 Significant accounting policies (continued)
4.10 Financial liabilities and equity instruments (continued)
4.10.3 Financial liabilities (continued)
4.10.3.3 Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the consolidated income statement.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

4.10.3.4 Financial guarantee

A financial guarantee is an undertaking/commitment that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantees issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the guarantee, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets;* and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

4.10.3.5 De-recognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated income statement.

4.11 Offsetting

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

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

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

4 Significant accounting policies (continued)
4.12 Islamic derivative financial instruments

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

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

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

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

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

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

4.12.1 Fair value hedges

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

4 Significant accounting policies (continued)
4.12 Islamic derivative financial instruments (continued)
4.12.2 Cash flow hedges

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

4.12.3 Islamic Derivatives that do not qualify for hedge accounting

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

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

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

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

4.14 Fair values
4.14.1 Fair values - Financial instruments

For quoted investments actively traded in organised financial markets, fair value is determined by reference to quoted market prices at the close of business at the end of reporting period.

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

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

4 Significant accounting policies (continued)
4.14 Fair values (continued)
4.14.2 Fair values - non financial assets

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

4.15 Cash and cash equivalents

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

4.16 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments. Refer to note 47 on Business Segment reporting.

4.17 Acceptances

Acceptances are recognised as financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

4.18 Properties held for sale

Properties acquired or constructed with the intention of sale are classified as properties held for sale. Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for properties less all estimated costs of completion and costs necessary to make the sale.

Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are capitalised as and when the activities that are necessary to get the assets ready for the intended use are in progress.

4 Significant accounting policies (continued)
4.19 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured at cost less accumulated depreciation and impairment loss, if any. Depreciation on investment in buildings is charged on a straight-line basis over 25 years.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the period in which the property is derecognised.

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

4.20 Property and equipment

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

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

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

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

Freehold land is not depreciated.

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

4 Significant accounting policies (continued)
4.20 Property and equipment (continued)

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

4.21 Impairment of tangible assets

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated income statement.

4.22 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Bank has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

4 Significant accounting policies (continued)

4.23 Employees' end of service benefits

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

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

4.24 Share-based payment arrangement

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

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

4.25 Taxation

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

4.25.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

4.25.2 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

4 Significant accounting policies (continued)
4.25 Taxation (continued)
4.25.2 Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

4.26 Zakat

Zakat for shareholders is computed based on "Net Invested Funds Method" which is in accordance with Fatwa and Sharia'a Supervisory Boards.

The Zakat for the shareholders is accounted for as follows:

4.26.1 Zakat accounted by the Bank on shareholders' behalf

Zakat is accounted as per the Articles and Memorandum of Association of the Bank's and is approved by the Bank's Fatwa and Sharia'a Supervisory Boards on the following basis:
- The portion of Zakat payable by the Bank on its shareholders' behalf is calculated on 'statutory reserve', 'general reserve', 'retained earnings' and 'provision for employees' end of service benefits';
- Zakat paid by investee companies directly are adjusted in shareholders Zakat, if the Bank only accounts for net profit after Zakat of investee;
- Zakat on depositors' investment risk reserve is calculated and deducted from the investment risk reserve balance held with the bank and added to the Zakat payable balance; and
- Zakat is disbursed by a committee appointed by the Board of Directors and operating as per the by-law set by the Board of Directors.

4.26.2 Zakat payable by the shareholders'

Zakat payable by the shareholders directly represents the differential/remaining Zakat which is the difference between total Zakat computed by the Bank, as per Zakat accounted by the Bank on shareholders' behalf and then calculated, as per the Bank's entities Articles and Memorandum of Association and approval of the Bank's Fatwa and Sharia'a Supervisory Boards.

4.27 Revenue recognition

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

4.27.1 Income from financial assets measured at amortized cost

Income from a financial asset measured at amortized cost (including income from financing and investing assets) is recognised when it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably. Income is accrued on a time basis, by reference to the principal outstanding and at the effective profit rate applicable, which is the rate that is used to calculate the present value of estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4 Significant accounting policies (continued)
4.27 Revenue recognition (continued)
4.27.1 Income from financial assets measured at amortized cost (continued)

Murabahat

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

Salam finance

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

Istisna'a

Istisna'a revenue and the associated profit margin (difference between the sale price of Al-Masnoo to the customer and the Bank's total Istisna'a cost) is accounted for on a time-apportioned basis.

Ijarah

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

Musharaka

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

Mudaraba

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

Wakala

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

Sukuk

Income is accounted for on effective profit rate basis over the term of the Sukuk.

4.27.2 Fee and commission income

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

4.27.3 Dividend income

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

4 Significant accounting policies (continued)
4.27 Revenue recognition (continued)
4.27.4 Revenue from sale of properties, net

Revenue from the sale of properties is recognized when the properties are delivered and titles have passed, at which time all the following conditions are satisfied:
- the Bank has transferred to the buyer the significant risks and rewards of ownership of the properties;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Bank; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

4.27.5 Rental income

The Bank's policy for recognition of revenue from operating leases is described in note 4.29 below.

4.27.6 Forfeited income

In according to the Bank's Fatwa and Sharia'a Supervisory Board, the Bank is required to identify any income deemed to be derived from transactions not acceptable under Islamic Sharia'a principles, as interpreted by Fatwa and Sharia'a Supervisory Board, and to set aside such amount in a separate account used to pay for local charitable causes and activities.

4.28 Depositors' share of profit calculation

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

4.29 Leasing
4.29.1 The Bank as a lessor

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

4.29.2 The Bank as a lessee

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4 Significant accounting policies (continued)
4.30 Foreign currencies

In preparing the financial statements of each individual Bank's entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in the consolidated income statement in the period in which they arise except for:

- exchange differences on foreign currency Islamic financing relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to financing costs on those foreign currency Islamic financings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to the consolidated income statement on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Bank's foreign operations are translated into Arab Emirates Dirham, which is the Bank's presentation currency, using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Bank is reclassified to the consolidated income statement.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Bank losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated income statement. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Bank losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated income statement.

Fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

5 Critical accounting judgements and key sources of estimation of uncertainty

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

5.1 Impairment losses on Islamic financing and investing assets

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

5.1.1 Individually assessed Islamic financing and investing assets

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

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

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

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

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

5.1.2 Collectively assessed Islamic financing and investing assets

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

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

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

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

5.2 Classification of investments

The classification and measurement of the financial assets depends on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial assets assessed. Management is satisfied that the Bank's investment in securities are appropriately classified and measured.

Financial assets that are measured at amortized cost are those assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit.

Financial assets that are measured at FVTOCI are strategic investments in equity instruments and investment funds that are not held to benefit from changes in their fair value and are not held for trading. The management believes that designating these instruments as at FVTOCI provides a more meaningful presentation of its medium to long-term interest in its investments than holding the investments at fair value through profit and loss.

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

5.3 Impairment of associates

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

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

5.4 Islamic derivative financial instruments

Subsequent to initial recognition, the fair values of Islamic derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, present value calculation of the estimated future cash flow models and recognised pricing models as appropriate. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, present value calculation of the estimated future cash flow analysis and other valuation techniques commonly used by market participants.

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

5.4 Islamic derivative financial instruments (continued)

The main factors which management considers when applying a model are:

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

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

5.5 Fair value of financial instruments

Where the fair values of financial assets recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as present value calculation rates, prepayment rates and default rate assumptions for 'asset-backed' securities.

5.6 Property and equipment, and investment properties

The cost of property and equipment, and investment properties is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial.

6 Cash and balances with central banks

(a) The analysis of the Bank's cash and balances with central banks as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Cash on hand	**1,731,584**	1,494,417
Balances with central banks:		
Current accounts	**1,336,509**	773,160
Reserve requirements with central banks (note 6 (c))	**4,186,484**	4,162,897
International murabahat with the Central Bank of the U.A.E.	**8,218,972**	6,521,845
Total	**15,473,549**	12,952,319

6 Cash and balances with central banks (continued)

b) The geographical analysis of the cash and balances with central banks as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Within the U.A.E.	15,332,549	12,822,994
Outside the U.A.E.	141,000	129,325
Total	15,473,549	12,952,319

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

7 Due from banks and financial institutions

a) The analysis of the Bank's due from banks and financial institutions as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Current accounts	528,113	451,311
Investment deposits	891,867	793,828
International murabahat - short term	1,749,134	1,797,957
Total	3,169,114	3,043,096

b) The geographical analysis of the due from banks and financial institutions as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Within the U.A.E.	2,217,222	2,672,090
Outside the U.A.E.	951,892	371,006
Total	3,169,114	3,043,096

8 Islamic financing and investing assets, net

a) The analysis of the Bank's Islamic financing and investing assets, as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Islamic financing Assets		
Vehicles murabahat	**5,653,007**	5,841,766
Real estate murabahat	**4,264,731**	4,580,452
Commodities murabahat	**3,815,483**	4,254,785
International murabahat - long term	**286,159**	301,959
Total murabahat	**14,019,380**	14,978,962
Home finance Ijarah	**12,318,412**	12,637,973
Other Ijarahs	**11,896,973**	8,906,952
Salam	**4,687,193**	3,165,976
Istisna'a	**4,491,960**	6,170,597
Islamic credit cards	**392,490**	454,715
	47,806,408	46,315,175
Deferred income	**(2,318,116)**	(2,983,812)
Contractors and consultants' Istisna'a contracts	**(121,805)**	(249,840)
Provision for impairment	**(3,063,156)**	(3,086,192)
Total Islamic financing assets, net	**42,303,331**	39,995,331
Islamic investing Assets		
Musharakat	**6,824,046**	6,447,876
Mudaraba	**3,894,714**	3,736,973
Wakalat	**3,174,278**	1,749,551
	13,893,038	11,934,400
Provision for impairment	**(636,266)**	(422,682)
Total Islamic investing assets, net	**13,256,772**	11,511,718
Total Islamic financing and investing assets, net	**55,560,103**	51,507,049

8 Islamic financing and investing assets, net (continued)

b) Analysis of Islamic financing and investing assets, net by industry group and geography as at 31 December 2012 and 2011 are as follows:

	2012		
	Within the U.A.E.	**Outside the U.A.E.**	**Total**
	AED'000	**AED'000**	**AED'000**
Economic sector			
Financial institutions	**1,086,348**	**263,164**	**1,349,512**
Real estate	**17,560,998**	**84,972**	**17,645,970**
Trade	**2,626,914**	**69,785**	**2,696,699**
Government	**4,081,540**	**-**	**4,081,540**
Manufacturing and services	**6,930,468**	**1,341,666**	**8,272,134**
Consumer home finance	**12,647,712**	**179,222**	**12,826,934**
Consumer financing	**12,143,907**	**242,829**	**12,386,736**
	57,077,887	**2,181,638**	**59,259,525**
Provision for impairment			**(3,699,422)**
Total			**55,560,103**

	2011 (Restated)		
	Within the U.A.E.	Outside the U.A.E.	Total
	AED'000	AED'000	AED'000
Economic sector			
Financial institutions	1,259,368	371,986	1,631,354
Real estate	18,786,291	-	18,786,291
Trade	1,763,472	63,486	1,826,958
Government	2,664,501	-	2,664,501
Manufacturing and services	4,610,553	1,124,366	5,734,919
Consumer home finance	12,309,934	245,577	12,555,511
Consumer financing	11,605,056	211,333	11,816,389
	52,999,175	2,016,748	55,015,923
Provision for impairment			(3,508,874)
Total			51,507,049

8 Islamic financing and investing assets, net (continued)

c) The movements in the provision for impairment during the years ended 31 December 2012 and 2011 are as follows:

	2012		
	Financing	**Investing**	**Total**
	AED'000	**AED'000**	**AED'000**
Balance at 1 January	**3,086,192**	**422,682**	**3,508,874**
Charge for the year	**1,039,704**	**123,970**	**1,163,674**
Release to the profit or loss	**(270,381)**	**(8,899)**	**(279,280)**
Write-offs during the year	**(672,135)**	**(19,197)**	**(691,332)**
Other	**(120,224)**	**117,710**	**(2,514)**
Balance at 31 December	**3,063,156**	**636,266**	**3,699,422**
Gross amount of Islamic financing and investing assets, determined to be impaired			**6,118,079**

	2011 (Restated)		
	Financing	Investing	Total
	AED'000	AED'000	AED'000
Balance at 1 January	2,402,030	132,681	2,534,711
Charge for the year	1,113,285	403,902	1,517,187
Release to the profit or loss	(446,582)	(93,305)	(539,887)
Write-offs during the year	(1,979)	-	(1,979)
Other	19,438	(20,596)	(1,158)
Balance at 31 December	3,086,192	422,682	3,508,874
Gross amount of Islamic financing and investing assets, determined to be impaired			6,807,616

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

	2012	2011
	AED'000	AED'000
		(Restated)
Property and Mortgages	**41,422,964**	36,968,791
Machineries and vehicles	**2,238,444**	940,142
Deposits and equities	**779,402**	447,347

e) The fair value of collaterals that the Bank holds relating to facilities individually determined to be impaired at 31 December 2012 amounts to AED 5.5 billion (2011 (Restated): AED 5.0 billion).

f) During the year, the Bank took possession of various underlying assets, primarily vehicles. The Bank has sold repossessed assets amounting to AED 7.5 million (2011 (Restated): AED 6.5 million), which has been adjusted against the outstanding receivables.

9 Investments in Islamic sukuk measured at amortised cost

a) The geographical analysis of the Bank's investments in Islamic Sukuk as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Within the U.A.E.	**10,066,975**	12,074,024
Other G.C.C. Countries	**233,249**	129,470
Rest of the World	**788,438**	484,617
Total	**11,088,662**	12,688,111

(b) Analysis of investments in Islamic sukuk measured at amortized cost by industry group as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Government	**5,390,379**	5,077,380
Manufacturing and services	**2,728,401**	5,288,887
Financial institutions	**1,943,936**	1,312,263
Real estate	**1,025,946**	1,009,581
Total	**11,088,662**	12,688,111

(c) Investments in Islamic sukuk within the U.A.E. include investments in bilateral governmental sukuk amounting to AED 3,673.0 million as at 31 December 2012 (2011 (Restated): AED 3,673.0 million).

10 Other investments

(a) The analysis of the Bank's other investments as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Investments designated at fair value through profit or loss	**2,223**	52,987
Investments measured at fair value through other comprehensive income	**2,142,648**	1,981,402
Total	**2,144,871**	2,034,389

(b) Analysis of other investments by industry group as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Manufacturing and services	**1,195,801**	1,224,639
Financial institutions	**548,031**	552,595
Real estate	**401,039**	257,155
Total	**2,144,871**	2,034,389

10 Other investments (continued)

(c) The geographical analysis of the other investments as at 31 December 2012 and 2011 is as follows:

	2012			
	Within the U.A.E.	**Other G.C.C. countries**	**Rest of the World**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Investments designated at fair value through profit or loss				
Quoted equity instruments	**2,223**	**-**	**-**	**2,223**
Investments measured at fair value through other comprehensive income				
Quoted equity instruments	**418,616**	**152,142**	**40,080**	**610,838**
Unquoted equity instruments	**846,424**	**60,957**	**83,196**	**990,577**
Unquoted investment funds	**305,754**	**1,794**	**233,685**	**541,233**
	1,570,794	**214,893**	**356,961**	**2,142,648**
Total	**1,573,017**	**214,893**	**356,961**	**2,144,871**

	2011 (Restated)			
	Within the U.A.E.	Other G.C.C. countries	Rest of the World	Total
	AED'000	AED'000	AED'000	AED'000
Investments designated at fair value through profit or loss				
Quoted equity instruments	4,305	-	48,682	52,987
Investments measured at fair value through other comprehensive income				
Quoted equity instruments	338,571	161,601	33,602	533,774
Unquoted equity instruments	947,748	61,685	83,387	1,092,820
Unquoted investment funds	122,117	5,851	226,840	354,808
	1,408,436	229,137	343,829	1,981,402
Total	1,412,741	229,137	392,511	2,034,389

(d) During the year ended 31 December 2012, dividends received from financial assets measured at fair value through other comprehensive income (FVTOCI) amounting to AED 19.8 million (2011 (Restated): AED 32.4 million) were recognized as gain from other investments in the consolidated income statement (note 34).

11 Investments in associates

(a) Details of the Bank's significant associates at 31 December 2012 and 2011 are as follows:

	Name of associate	Principal activity	Place of incorporation	Percentage of holding 2012	2011
1.	Bank of Khartoum	Banking	Sudan	**28.4%**	28.4%
2.	Jordan Dubai Islamic Bank	Banking	Jordan	**20.8%**	20.8%
3.	Deyaar Development P.J.S.C.	Real estate development	U.A.E.	**44.8%**	44.8%
4.	Emirates REIT Management Private Limited (Note 17)	Properties management	U.A.E.	**25.0%**	-
5.	Liquidity Management Center (B.S.C.)	Brokerage services	Bahrain	**25.0%**	25.0%
6.	Ejar Cranes & Equipment L.L.C.	Equipment leasing	U.A.E.	**16.7%**	16.7%
7.	MESC Investment Company	Investments	Jordan	**40.0%**	40.0%

(b) Investments have been accounted for as investment in associates when the Bank is deemed to have significant influence. Although the Bank holds less than 20% of the equity shares of Ejar Cranes & Equipment L.L.C., and it has less than 20% of the voting power at shareholders meetings, the Bank exercises significant influence by being the major shareholder of the company, having a representative in the company's board of directors and being the major financing facilities provider.

(c) As at 31 December 2012, the fair value of the Bank's listed associates is AED 1,140.2 million (2011 (Restated): AED 821.7 million), and the carrying amount of the Bank's interest in those associates is AED 2,154.6 million (2011 (Restated): AED 2,156.5 million). All other investments are not listed in active markets and the management considers the carrying amounts of these investments approximate their fair values.

(d) Summarized financial information in respect of the Bank's associates is set out below:

	2012 AED'000	2011 AED'000 (Restated)
Share of associates' financial position:		
Assets	**6,121,540**	6,532,020
Liabilities	**(3,794,017)**	(4,187,199)
Net assets	**2,327,523**	2,344,821
Provision for impairment (note 11 (e))	**(33,495)**	(8,382)
Investments in associates	**2,294,028**	2,336,439
Share of associates' revenue and profit for the year:		
Revenue	**339,960**	248,970
Share of profit from associates	**60,301**	28,551

11 Investments in associates (continued)

(e) Movement of provision for impairment of investments in associates during the years ended 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Balance at 1 January	**8,382**	130,228
Charge for the year (note 42)	**33,495**	3,128
Derecognized investments in associates	**(8,382)**	(124,974)
Balance at 31 December	**33,495**	8,382

(f) During the year ended 31 December 2011, the Bank discontinued the use of the equity method, for the Bank's interest in the equity of two associates due to the loss of the significant influence as defined under IAS 28, and reclassified these investments into other investments measured at FVTOCI in accordance with IFRS 9.

At the date of reassessment, the carrying value and fair values of the investments are as follows:

	2012 AED'000	2011 AED'000 (Restated)
Fair value of investments at the date of reassessment	**-**	841,817
Less: Carrying amount of investments in associates at the date of reassessment	**-**	(841,817)
Gain recognized	**-**	-

(g) The geographical analysis of the investment in associates as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Within the U.A.E.	**1,944,208**	1,929,820
Other G.C.C. Countries	**53,627**	51,840
Rest of the world	**296,193**	354,779
Total	**2,294,028**	2,336,439

(h) During the year ended 31 December 2012, the Bank disposed off its interest in equity of two associates. This resulted in the recognition of a gain calculated as follows:

	2012 AED'000
Proceeds of disposal	**29,109**
Less: Carrying value of the investments at the time of disposal	**(24,318)**
Gain recognized (note 38)	**4,791**

12 Properties held for sale

(a) Properties held for sale represent properties in U.A.E., Egypt and Lebanon that are registered in the name of the Bank's entities.

(b) The movement of the properties held for sale during the years ended 31 December 2012 and 2011 is as follows:

	Properties AED'000	**Properties under construction AED'000**	**Total AED'000**
2012			
Balance at 1 January 2012	**504,472**	**105,284**	**609,756**
Additions	**18,912**	**-**	**18,912**
Disposals (note 37)	**(12,218)**	**-**	**(12,218)**
Impaired during the year (note 42)	**(6,000)**	**-**	**(6,000)**
Transferred to investment properties (note 13(d))	**(381,749)**	**-**	**(381,749)**
Foreign exchange effect	**(3,792)**	**-**	**(3,792)**
Balance at 31 December 2012	**119,625**	**105,284**	**224,909**
2011 (Restated)			
Balance at 1 January 2011	544,959	524,165	1,069,124
Additions	18,112	31,385	49,497
Disposals (note 37)	(15,296)	-	(15,296)
Impaired during the year (note 42)	(40,500)	-	(40,500)
Transferred to investment properties (note 13(d))	-	(450,266)	(450,266)
Foreign exchange effect	(2,803)	-	(2,803)
Balance at 31 December 2011	504,472	105,284	609,756

(c) The geographical analysis of properties held for sale as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Within the U.A.E.	**105,289**	492,487
Outside the U.A.E.	**119,620**	117,269
Total	**224,909**	609,756

13 Investment properties

(a) Movement in investment properties during the years ended 31 December 2012 and 2011 is as follows:

2012	Land	Other real estate	Investment properties under construction	Total
	AED'000	AED'000	AED'000	AED'000
Cost:				
Balance at 1 January 2012	**472,072**	**1,081,049**	**450,266**	**2,003,387**
Additions	**23,382**	**337,153**	**32,815**	**393,350**
Transferred from properties held for sale (note 13 (d))	**339,811**	**69,763**	**187,316**	**596,890**
Disposal	**-**	**(27)**	**-**	**(27)**
Eliminated on loss of control in subsidiaries (note 17 (d))	**-**	**(585,266)**	**-**	**(585,266)**
Foreign exchange effect	**-**	**8,990**	**-**	**8,990**
Other	**-**	**11,100**	**-**	**11,100**
Balance at 31 December 2012	**835,265**	**922,762**	**670,397**	**2,428,424**
Accumulated depreciation and impairment:				
Balance at 1 January 2012	**-**	**218,182**	**-**	**218,182**
Depreciation charged for the year	**-**	**31,351**	**-**	**31,351**
Impairment losses recognized (note 42)	**-**	**31,000**	**-**	**31,000**
Foreign exchange effect	**-**	**942**	**-**	**942**
Transferred from properties held for sale (note 13 (d))	**150,888**	**24,884**	**39,369**	**215,141**
Balance at 31 December 2012	**150,888**	**306,359**	**39,369**	**496,616**
Carrying amount at 31 December 2012	**684,377**	**616,403**	**631,028**	**1,931,808**
2011 (Restated)				
Cost:				
Balance at 1 January 2011	1,223,131	872,977	-	2,096,108
Additions	45,508	219,378	-	264,886
Transferred from properties held for sale (note 13 (d))	-	-	450,266	450,266
Disposals	(787,513)	-	-	(787,513)
Foreign exchange effect	-	(11,306)	-	(11,306)
Other	(9,054)	-	-	(9,054)
Balance at 31 December 2011	472,072	1,081,049	450,266	2,003,387
Accumulated depreciation and impairment:				
Balance at 1 January 2011	-	173,197	-	173,197
Depreciation charged for the year	-	24,205	-	24,205
Impairment losses recognized (note 42)	-	19,401	-	19,401
Foreign exchange effect	-	1,379	-	1,379
Balance at 31 December 2011	-	218,182	-	218,182
Carrying amount at 31 December 2011	472,072	862,867	450,266	1,785,205

13 Investment properties (continued)

(b) During the year ended 31 December 2011, disposal of investment properties includes a sale of plots of land amounting to AED 784.9 million. Effective 30 December 2011, the Bank entered into a sale and purchase agreement to sell investment properties with a carrying value of AED 784.9 million. The salient terms and conditions of the sales and purchase agreement are as follows:

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

	2011 AED'000 (Restated)
Sales consideration receivable on or before 30 December 2016	1,062,757
Deferred income on the assumption that settlement is on 30 December 2016	(277,902)
Net sales consideration	784,855
Less: Carrying value of the investment properties	(784,855)
Gain recognized on sales of investment properties	-

(c) The geographical analysis of investment properties as of 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Within the U.A.E.		
Land	**783,532**	420,339
Other real estate	**405,027**	572,501
Investment properties under construction	**670,397**	450,266
	1,858,956	1,443,106
Outside the U.A.E.		
Land	**51,733**	51,733
Other real estate	**517,735**	508,548
	569,468	560,281
Total cost	**2,428,424**	2,003,387
Less: Accumulated depreciation and impairment	**(496,616)**	(218,182)
Total carrying amount	**1,931,808**	1,785,205

13 Investment properties (continued)

(d) Transfer from properties held for sale during the year ended 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Land	**339,811**	-
Other real estate	**69,763**	-
Investment properties under construction	**187,316**	450,266
Total cost (note 13 (a))	**596,890**	450,266
Less: Accumulated impairment (note 13 (a))	**(215,141)**	-
Total carrying amount (note 12 (b))	**381,749**	450,266

(e) The fair value of the Bank's investment properties as at 31 December 2012 is AED 3.0 billion (2011 (Restated): AED 2.4 billion).

The Bank has carried out internal valuation of these properties as at 31 December 2012 and 2011. The valuation were based on a present value calculation of the estimated future cash flow model supported by existing lease and current market rents for similar properties in the same location adjusted to reflect the level of completion of construction of these properties. The profit rate, which is used to calculate the present value of the future cash flows, reflects current market assessments of the uncertainty and timing of the cash flows.

The valuations were based on an individual assessment, for each property type, of both the future earnings and the required yield. In assessing the future earnings of the properties, potential changes in rental levels from each contract's rent and expiry date compared with estimated current market rent, as well as changes in occupancy rates and property costs.

(f) Investment properties include properties amounting AED 433.2 million (2011 (Restated): AED 443.2 million) have been mortgaged by one of the Bank's entities as a security financing obligation to another bank.

14 Receivables and other assets

(a) The analysis of the Bank's receivables and other assets as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Due from customers (note 14(b))	**889,000**	857,951
Receivables on sale of investment properties, net	**833,908**	784,855
Acceptances	**679,425**	656,263
Other income receivable	**151,538**	201,347
Clearing receivables	**78,664**	107,344
Prepaid expenses	**78,090**	72,954
Trade receivables	**45,818**	55,164
Fair value of Islamic derivatives (note 48 (a))	**41,288**	65,996
Due from employees	**31,692**	26,778
Advances to contractors	**18,169**	39,147
Inventories	**9,877**	8,874
Deferred tax asset (note 23(b))	**9,749**	19,297
Cheques sent for collection	**1,233**	16,863
Other	**160,463**	189,057
	3,028,914	3,101,890
Less: Provision for impairment	**(108,616)**	(51,200)
Total	**2,920,298**	3,050,690

(b) Due from customers represent overdrawn current accounts and other accounts that are not meeting the definition of Islamic financing and investing assets. The balances are stated net of provision for impairment amounting to AED 473.0 million (2011 (Restated): AED 470.0 million). The Bank holds collaterals amounting to AED 951.0 (2011 (Restated): AED 1,012.0 million) against these accounts.

15 Property and equipment

2012

	Land and buildings AED'000	Plant and machinery AED'000	Furniture and office equipment AED'000	Information technology AED'000	Motor vehicles AED'000	Capital work in progress* AED'000	Total AED'000
Cost:							
Balance at 1 January 2012	416,058	84,063	383,270	421,891	3,630	22,771	1,331,683
Additions	5,808	1,850	8,787	7,079	475	56,868	80,867
Disposals	(83)	(3)	(1,242)	(1,257)	(644)	-	(3,229)
Written off	-	-	(4,446)	(208)	-	-	(4,654)
Transfers	21,793	-	5,673	22,822	-	(50,288)	-
Exchange adjustments	(141)	(330)	(5,007)	(3,146)	(73)	(259)	(8,956)
Balance at 31 December 2012	443,435	85,580	387,035	447,181	3,388	29,092	1,395,711
Accumulated depreciation:							
Balance at 1 January 2012	65,247	64,253	305,343	312,549	2,881	-	750,273
Charge for the year	22,656	3,549	31,795	40,970	226	-	99,196
Disposals	(27)	(2)	(1,073)	(974)	(634)	-	(2,710)
Written off	-	-	(4,232)	(163)	-	-	(4,395)
Exchange adjustments	-	(133)	(2,281)	(1,542)	(54)	-	(4,010)
Balance at 31 December 2012	87,876	67,667	329,552	350,840	2,419	-	838,354
Carrying amount							
Balance at the end of the year	355,559	17,913	57,483	96,341	969	29,092	557,357

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

15 Property and equipment (continued)

2011 (Restated)

	Land and buildings	Plant and machinery	Furniture and office equipment	Information technology	Motor vehicles	Capital work in progress*	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cost:							
Balance at 1 January 2011	398,785	84,128	376,908	410,372	3,968	25,075	1,299,236
Additions	1,446	165	12,326	6,970	154	37,077	58,138
Disposals	-	-	(6,025)	(8,658)	(442)	-	(15,125)
Written off	-	-	(205)	(599)	-	(4,604)	(5,408)
Transfers	15,926	-	3,291	15,476	-	(34,693)	-
Exchange adjustments	(99)	(230)	(3,025)	(1,670)	(50)	(84)	(5,158)
Balance at 31 December 2011	416,058	84,063	383,270	421,891	3,630	22,771	1,331,683
Accumulated depreciation:							
Balance at 1 January 2011	44,282	60,605	272,383	265,726	3,154	-	646,150
Charge for the year	20,965	3,729	39,407	56,007	205	-	120,313
Disposals	-	-	(5,307)	(8,657)	(442)	-	(14,406)
Written off	-	-	(87)	-	-	-	(87)
Exchange adjustments	-	(81)	(1,053)	(527)	(36)	-	(1,697)
Balance at 31 December 2011	65,247	64,253	305,343	312,549	2,881	-	750,273
Carrying amount							
Balance at the end of the year	350,811	19,810	77,927	109,342	749	22,771	581,410

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

16 Investments in joint ventures

(a) Details of the Bank's joint ventures (the "Joint Ventures" or "JVs") as at 31 December 2012 and 2011 are as follows:

	Joint ventures	Principal activity	Country of incorporation	Percentage of equity 2012	2011
1.	Al Bustan Center Company L.L.C.	Rental of apartments and shops	U.A.E.	50%	50%
2.	Millennium Private Equity L.L.C.	Fund Management	U.A.E.	50%	50%
3.	Al Rimal Development	Property development	U.A.E.	50%	50%
4.	Gulf Tankers L.L.C. (under liquidation)	Cargo and transport	U.A.E.	50%	50%

(b) The following amounts are included in the Bank's consolidated financial statements as a result of the proportionate consolidation of the joint ventures as at 31 December 2012 and 2011.

	2012 AED'000	2011 AED'000 (Restated)
Cash and balances with central banks	**77**	273
Other investments	**1,091**	763
Properties held for sale	**47,813**	47,808
Receivables and other assets	**18,709**	17,961
Property and equipment	**3,430**	3,952
Total assets	**71,120**	70,757
Total liabilities	**26,176**	30,813
Profit for the year	**13,506**	13,917

17 Subsidiaries

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

	Subsidiaries	**Principal activity**	**Country of incorporation**	**Percentage of equity** 2012	2011
1.	DIB Capital Limited	Investments and financial services	U.A.E.	95.5%	95.5%
2.	Dubai Islamic Bank Pakistan Ltd.	Banking	Pakistan	100.0%	100.0%
3.	Tamweel P.J.S.C.	Financing and investment	U.A.E	58.3%	58.3%
4.	Dubai Islamic Financial Services L.L.C.	Brokerage services	U.A.E.	95.5%	95.5%
5.	Dar al Shariah Financial & Legal Consultancy L.L.C.	Financial and legal advisory	U.A.E.	60.0%	60.0%
6.	Al Tanmyah Services L.L.C.	Labour services	U.A.E.	99.5%	99.5%
7.	Emirates Automotive Leasing Company (dormant company)	Trading in motor vehicles	U.A.E.	100.0%	100.0%
8.	Al Tatweer Al Hadith Real Estate	Real estate development	Egypt	100.0%	100.0%
9.	Al Tameer Modern Real Estate Investment	Real estate development	Egypt	100.0%	100.0%
10.	Al Tanmia Modern Real Estate Investment	Real estate development	Egypt	100.0%	100.0%
11.	Naseej Fabric Manufacturing L.L.C.	Textile Manufacturing	U.A.E.	99.0%	99.0%
12.	DIB Printing Press L.L.C.	Printing	U.A.E.	99.5%	99.5%
13.	Levant One Investment Limited	Investments	U.A.E.	100.0%	100.0%
14.	Petra Limited	Investments	Cayman Islands	100.0%	100.0%
15.	Al Islami Real Estate Investments Ltd.	Investments	U.A.E.	100.0%	100.0%
16.	Tamweel Funding Limited	Sukuk	Jersey	58.3%	58.3%
17.	Tamweel Sukuk Limited	Sukuk	Cayman Islands	58.3%	58.3%
18.	Tamweel ESOT Limited	Employees share options	British Virgin Islands	58.3%	58.3%
19.	Tamweel Properties & Investments L.L.C	Real estate development	U.A.E	58.3%	58.3%
20.	Tahfeez Middle East Limited	General trading	U.A.E	58.3%	58.3%
21.	Emirates REIT Management Private Limited	Properties management	U.A.E	*	60.0%
22.	Emirates REIT CIEC	Real Estate Fund	U.A.E	**	63.7%
23.	Millennium Capital Holding P.S.C.	Financing & investing	U.A.E.	***	95.5%
24.	Al Ahlia Aluminum Company L.L.C.	Aluminum fixtures	U.A.E.	***	75.5%

* The Bank diluted its share in Emirates REIT Management Private Limited from 60% to 25%. Accordingly, the entity was reclassified from a subsidiary to an associate during the year ended 31 December 2012 due to the loss of control.

** The Bank diluted its holding share in Emirates REIT CIEC (the "Fund") from 63.7% to 36.2% which resulted in a loss of control and as the Bank does not have any significant influence over the Fund, the Fund was reclassified from a subsidiary to an investment measured at fair value through other comprehensive income (FVTOCI) during the year ended 31 December 2012.

*** Al Ahlia Aluminum Company L.L.C. and Millennium Capital Holding P.S.C. were liquidated during the year ended 31 December 2012.

17 Subsidiaries (continued)

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

	SPV	Principal activity	Country of incorporation	Percentage of equity 2012	2011
25.	HoldInvest Real Estate Sarl	Investments	Luxembourg	Controlling interest	Controlling interest
26.	France Invest Real Estate SAS	Investments	France	Controlling interest	Controlling interest
27.	SARL Barbanniers	Investments	France	Controlling interest	Controlling interest
28.	SCI le Sevine	Investments	France	Controlling interest	Controlling interest
29.	Findi Real Estate SAS	Investments	France	Controlling interest	Controlling interest
30.	PASR Einudzwanzigste Beteiligunsverwaltung GMBH	Investments	Austria	Controlling interest	Controlling interest
31.	Al Islami German Holding Co. GMBH	Investments	Germany	Controlling interest	Controlling interest
32.	Rhein Logistics GMBH	Investments	Germany	Controlling interest	Controlling interest
33.	Jef Holdings BV	Investments	Netherlands	Controlling interest	Controlling interest
34.	Zone Two Real Estate Management Co.	Investments	Cayman Islands	Controlling interest	Controlling interest
35.	Zone One Real Estate Management Co.	Investments	Cayman Islands	100.0%	100.0%
36.	Al Islami Trade Finance FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
37.	DIB Lease One Ltd.	Investments	Bahamas	100.0%	100.0%
38.	DIB Lease One (Dublin) Ltd.	Investments	Ireland	100.0%	100.0%
39.	Gulf Atlantic FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
40.	Al Islami Oceanic Shipping Co FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
41.	Sequia Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
42.	Mount Sinai Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
43.	Blue Nile Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
44.	Bulwark Investments L.L.C.	Investments	U.A.E.	*	99.0%
45.	Optimum Investments L.L.C.	Investments	U.A.E.	*	99.0%
46.	Rubicon Investments L.L.C.	Investments	U.A.E.	*	99.0%
47.	Osiris Investments L.L.C.	Investments	U.A.E.	*	99.0%
48.	Lotus Investments L.L.C.	Investments	U.A.E.	*	99.0%
49.	Premiere Investments L.L.C.	Investments	U.A.E.	*	99.0%
50.	Landmark Investments L.L.C.	Investments	U.A.E.	*	99.0%
51.	Blackstone Investments L.L.C.	Investments	U.A.E.	*	99.0%
52.	Momentum Investments L.L.C.	Investments	U.A.E.	*	99.0%

* The SPVs' were liquidated during the year ended 31 December 2012.

(c) In addition to the registered ownership described above, the remaining equity in the entities 1, 4, 6, 11, 12, 41, 42 and 43 are also beneficially held by the Bank through nominee arrangements.

17 Subsidiaries (continued)

(d) Analysis of assets and liabilities over which control was lost at the date of derecognition:

	2012 AED'000
Investment properties (note 13 (a))	**585,266**
Other	**179,211**
Total assets	**764,477**
Due to banks and financial institutions	**(235,744)**
Other	**(166,697)**
Total liabilities	**(402,441)**
Non-controlling interest	**(180,605)**
Net assets disposed of (note 17 (e))	**181,431**

(e) Gain recognized on loss of control of subsidiaries during the year ended 31 December 2012:

	2012 AED'000
Fair value of investments retained	**184,806**
Less: Net assets disposed of (note 17 (d))	**(181,431)**
Gain recognized	**3,375**

18 Customers' deposits

(a) The analysis of the Bank's customers' deposits as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Current accounts	**17,831,454**	17,784,560
Saving accounts	**11,271,332**	10,848,614
Investment deposits	**37,350,634**	35,912,221
Margin accounts	**169,007**	192,765
Depositors' share of profit payable (note 18(d))	**113,676**	158,522
Depositors' investment risk reserve (note 18 (c))	**64,749**	33,157
Total	**66,800,852**	64,929,839

(b) Analysis of customers' deposits by geography as at 31 December 2012 and 2011 are as follows:

	2012 AED'000	2011 AED'000 (Restated)
Within the U.A.E.	**64,215,263**	63,069,252
Outside the U.A.E.	**2,585,589**	1,860,587
Total	**66,800,852**	64,929,839

18 Customers' deposits (continued)

(c) Depositors' investment risk reserve represents a portion of the depositors' share of profits set aside as a reserve. This reserve is payable to the depositors upon the approval of the Board of Directors and the Bank's Fatwa and Sharia'a Supervisory Board. Zakat on depositors' investment risk reserve is included under Zakat payable.

Movement of depositors' investment risk reserve during the years ended 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Balance at 1 January	**33,157**	387
Zakat for the year (note 24)	**(1,713)**	(877)
Net transfer from depositors' share of profit during the year (note 18(d))	**33,305**	33,647
Balance at 31 December(note 18 (a))	**64,749**	33,157

(d) Movement of depositors' share of profit payable during the years ended 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Depositors' share of profit for the year (note 43)	**612,542**	699,941
Net transfer to depositors' investment risk reserve (note 18 (c))	**(33,305)**	(33,647)
	579,237	666,294
Less: Amount paid during the year	**(465,561)**	(507,772)
Balance at 31 December(note 18 (a))	**113,676**	158,522

19 Due to banks and financial institutions

(a) The analysis of the Bank's due to banks and financial institutions as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Current accounts	**344,963**	218,294
Investment deposits	**5,813,326**	3,834,139
Total	**6,158,289**	4,052,433

19 Due to banks and financial institutions (continued)

(b) The geographical analysis of the Bank's due to banks and financial institutions as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Within the U.A.E.	**5,521,929**	3,879,534
Outside the U.A.E.	**636,360**	172,899
Total	**6,158,289**	4,052,433

20 Sukuk financing instruments

(a) The analysis of the Bank's sukuk financing instruments as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Sukuk financing instruments issued by the Bank (note 20(b))	**1,836,500**	2,357,075
Sukuk financing instruments issued by a subsidiary (note 20 (c))	**2,837,460**	1,816,908
Total	**4,673,960**	4,173,983

(b) In May 2012, the Bank, through a Sharia'a compliant financing arrangement, established a Trust Certificate Issuance Programme for USD 2,500 million (the "Programme"). As part of the Programme, the first series of the trust certificates amounting to USD 500 million (AED 1,836.5 million) were issued and listed on Irish Stock Exchange on 30 May 2012.

The terms of the Programme include transfer of certain identified assets (the "Co-Owned Assets") including original leased and musharakat assets, Sharia'a compliant authorised investments and any replaced assets of the Bank to DIB Sukuk Limited, Cayman Islands (the "Issuer"). These assets are under the control of the Bank and shall continue to be serviced by the Bank.

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

These sukuk financing instruments mature in May 2017 and is expected to pay profit to the investors semiannually based on 6 months LIBOR + 3.65% per annum at the time of issuance.

Previously issued sukuk financing instruments amounting to AED 2,357 million were settled in March 2012.

20 Sukuk financing instruments (continued)

(c) In July 2008, a subsidiary of the Bank issued Sharia'a compliant, non-convertible sukuk in the form of Trust Certificates for the total value of AED 1,100 million (at an expected profit rate of 3 months EIBOR + 0.225% per annum) and convertible sukuk for a total value of USD 300 million (at an expected profit rate of 4.31% per annum), which are listed on NASDAQ Dubai. In accordance with the terms of the subscription, each Trust Certificate may be redeemed at the option of the Certificate holder or the subsidiary as follows:

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

In both the options, the subsidiary will either issue the share of the subsidiary at the relevant exchange price or cash will be paid. At the time of final maturity in 2013, any remaining Trust Certificates will be redeemed in full by a subsidiary in cash at face value plus any unpaid realized profit amount.

In January 2012, a subsidiary issued Trust Certificates of US$ 300 million (at a profit rate of 5.15% per annum payable semi-annually in arrears). These sukuk are listed on the Irish Stock Exchange, and are structured to conform to principles of Islamic Sharia'a and mature in 2017.

21 Medium term wakala finance

(a) The Bank opted to re-categorise wakala deposits received in 2008 from UAE Ministry of Finance amounting to AED 3.8 billion to Tier 2 qualifying finance ("Tier 2 finance"). The conversion process has been approved by the Shareholders in the Extraordinary General Meeting held in April 2009. The wakala deposits provided by the UAE Ministry of Finance (the Muwakkil) to the Bank (the Wakeel) will be used for investments for a tenor of seven years commencing from the date of re-categorisation and will mature in December 2016. Wakala expected profit will be paid every three months that is expected to be in the range of 4.00% to 5.25% per annum.

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

22 Payables and other liabilities

	2012 AED'000	2011 AED'000 (Restated)
Acceptances payable	**679,425**	656,263
Trade payables	**450,739**	449,174
Accruals and other provisions	**267,665**	267,051
Investments related payable	**293,585**	293,585
Bankers cheques	**239,282**	155,661
Payable for properties	**230,473**	240,933
Sundry deposits	**193,814**	377,468
Depositors' and sukuk holders' share of profit payable (note 22(a))	**143,915**	100,936
Provision for employees' end-of-service benefits (note 22(b))	**124,714**	110,152
Vendor payable for Islamic financing and investing assets	**117,291**	55,778
Clearing payable	**70,125**	93,243
Payable to contractors	**54,392**	53,527
Transaction amanat accounts	**41,521**	39,501
Unclaimed dividends	**35,610**	35,651
Fair value of Islamic derivative liabilities (note 48 (a))	**27,963**	23,897
Deferred income	**22,841**	24,421
Fund transfer and remittances	**19,921**	31,734
Directors' remuneration payable	**5,350**	5,350
Provision for taxation (note 23(a))	**3,590**	5,346
Other	**233,412**	365,162
Total	**3,255,628**	3,384,833

(a) Movement of the depositors' and sukuk holders share of profit payable during the years ended 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Depositors' share of profits from:		
Wakala and other investment deposits from banks (note 43)	**521,624**	560,788
Profit accrued on sukuk financing instruments (note 43)	**182,039**	126,079
Less: Paid during the year	**(559,748)**	(585,931)
Balance at 31 December	**143,915**	100,936

22 Payables and other liabilities (continued)

(b) Movement of provision for employees' end-of-service benefits during the years ended 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Balance at 1 January	**110,152**	101,737
Charged during the year (note 39)	**19,268**	19,248
Paid during the year	**(4,706)**	(10,833)
Balance at 31 December	**124,714**	110,152

23 Taxation

(a) Provision for taxation movement during the years ended 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Balance at 1 January	**5,346**	3,623
Charged during the year (note 23 (c))	**3,941**	7,740
Paid during the year	**(5,652)**	(6,017)
Foreign exchange effect	**(45)**	-
Balance at 31 December (note 22)	**3,590**	5,346

(b) Deferred tax asset movement during the years ended 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Balance at 1 January	**19,297**	19,300
(Reversed)/charged during the year (note 23 (c))	**(8,860)**	958
Foreign exchange effect	**(688)**	(961)
Balance at 31 December (note 14 (a))	**9,749**	19,297

(c) The analysis of income tax expense charged during the years ended 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Current taxation (note 23(a))	**3,941**	7,740
Deferred taxation (note 23(b))	**8,860**	(958)
Total	**12,801**	6,782

24 Zakat payable

The analysis of Zakat payable by the Bank on shareholders' behalf for the years ended 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Zakat charged to the consolidated statement of changes of equity	**163,541**	152,244
Zakat adjustment related to previous years	**(2,446)**	-
Zakat accounted and paid by other subsidiaries	**(1,683)**	(11,668)
Shareholders' Zakat for the year payable by the Bank	**159,412**	140,576
Zakat adjustment related to previous years	**2,447**	(425)
Zakat accounted and paid by subsidiaries on behalf of the Bank	**-**	(19,952)
Net Zakat payable by the Bank on shareholders' behalf	**161,859**	120,199
Zakat on depositors' investment risk reserve (note 18 (c))	**1,713**	877
Total Zakat payable	**163,572**	121,076

25 Share capital

As at 31 December 2012, 3,797,054,290 authorised ordinary shares of AED 1 each (2011 (Restated): 3,797,054,290 ordinary shares of AED 1 each) were fully issued and paid up.

26 Other reserves

(a) The movement of the other reserves during the years ended 31 December 2012 and 2011 is as follows:

	Statutory reserve AED'000	**General reserve AED'000**	**Donated land reserve AED'000**	**Total AED'000**
Balance at 1 January 2011 (Restated)	2,731,879	2,350,000	276,139	5,358,018
Disposal of donated land	-	-	(9,054)	(9,054)
Balance at 31 December 2011 (Restated)	2,731,879	2,350,000	267,085	5,348,964
Balance at 31 December 2012	**2,731,879**	**2,350,000**	**267,085**	**5,348,964**

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

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

26 Reserves (continued)

(c) General reserve:

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

(d) Donated land reserve**:**

The Government of Dubai has donated certain land which has been allocated for the sole benefit of the shareholders of the Bank. Such land is included in investment properties as they are held for capital appreciation purpose.

27 Investments fair value reserve

	2012 **AED'000**	2011 AED'000 (Restated)
Balance at 1 January	**(831,849)**	(243,166)
Effect of the change in accounting policy for classification and measurement of financial assets – IFRS 9 (note 54.1)	**-**	(441,973)
Net unrealised gain/(loss) on other investments carried at FVTOCI	**11,719**	(146,724)
Reclassification of realised loss on disposal of other investments carried at FVTOCI	**-**	14
Balance at 31 December	**(820,130)**	(831,849)

28 Exchange translation reserve

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

29 Dividend paid and proposed

(a) The Board of Directors has proposed 15% cash dividend at their meeting held on 4 February 2013.

(b) For the year ended 31 December 2011, the shareholders approved and paid a cash dividend of AED 0.125 per share (total dividend AED 474.63 million) at the Annual General Meeting held on 20 March 2012. For the year ended 31 December 2010, the shareholders approved and paid a cash dividend of AED 0.100 per share (total dividend AED 379.71 million) at the Annual General Meeting held on 31 March 2011.

30 Non-controlling interests

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

31 Contingent liabilities and commitments

(a) The analysis of contingent liabilities and commitments as of 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Contingent liabilities:		
Letters of guarantee	**7,800,921**	7,510,949
Letters of credit	**1,962,295**	2,081,825
Total contingent liabilities	**9,763,216**	9,592,774
Commitments:		
Capital expenditure commitments	**267,571**	316,575
Irrevocable undrawn facilities commitments	**10,393,008**	8,756,501
Total commitments	**10,660,579**	9,073,076
Total contingent liabilities and commitments	**20,423,795**	18,665,850

(a) Financing-related financial instruments (contingent liabilities):

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

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

32 Income from Islamic financing and investing assets

	2012 AED'000	2011 AED'000 (Restated)
Islamic financing assets		
Vehicles murabahat	382,178	443,779
Commodities murabahat	265,498	306,844
Real estate murabahat	173,638	223,674
International murabahat	7,843	7,839
Total murabahat income	829,157	982,136
Home finance Ijarah	616,161	590,884
Other Ijarah	507,135	449,692
Salam finance	436,718	264,979
Istisna'a	318,122	449,051
Total income from Islamic financing assets	2,707,293	2,736,742
Islamic Investing assets		
Musharakat	356,655	458,902
Mudarabat	149,429	200,455
Wakalat	73,059	52,407
Total income from Islamic investing assets	579,143	711,764
Total income from Islamic financing and investing assets	3,286,436	3,448,506

Income from financing and investing assets is presented net of forfeited income of AED 2.4 million (2011 (Restated): AED 4.2 million).

33 Income from international murabahat and wakala, short term

	2012 AED'000	2011 AED'000 (Restated)
Income from International murabahat with central banks	33,582	59,100
Income from Investment and wakala deposits	17,093	17,326
Income from International murabahat from banks and financial institutions	4,684	6,707
Total	55,359	83,133

34 Gain from other investments, net

	2012 AED'000	2011 AED'000 (Restated)
Realized gain on disposal of investments in Islamic sukuk	**37,058**	712
Dividend income and other returns from investments measured at FVTOCI	**19,775**	32,421
Realized gain on disposal of investments measured at FVTPL	**1,514**	3,186
Dividend income from investments designated at FVTPL	**1,258**	3,258
Unrealized gain/(loss) on revaluation of investments measured at FVTPL	**313**	(541)
Total	**59,918**	39,036

Dividend income is presented net of forfeited income of AED 4.2 million (2011 (Restated): AED 3.4 million).

35 Commissions, fees, and foreign exchange income

	2012 AED'000	2011 AED'000 (Restated)
Trade related commission and fees	**243,273**	188,966
Asset and wealth management related fees	**51,245**	48,747
Other commissions and fees	**361,025**	352,644
Foreign exchange income	**76,447**	89,042
Fair value of Islamic derivatives	**1,375**	10,532
Cumulative gains on hedging reserve reclassified to profit or loss	**-**	10,656
Total	**733,365**	700,587

36 Income from investment properties

Income from investment properties represents the net rental income recognized by the Bank from its investment properties during the years ended 31 December 2012 and 2011, and is presented net of forfeited income of AED 0.2 million (2011 (Restated): AED 0.2 million).

37 Income from properties held for sale, net

	2012 AED'000	2011 AED'000 (Restated)
Sales proceeds	**27,341**	30,686
Cost of sale (note 12(b))	**(12,218)**	(15,296)
Total	**15,123**	15,390

38 Other income

	2012 AED'000	2011 AED'000 (Restated)
Services income, net	**62,991**	65,402
Gain on disposal of associates (note 11 (h))	**4,791**	-
Gain on sale of property and equipment	**351**	245
Other	**88,316**	65,190
Total	**156,449**	130,837

39 Personnel expenses

	2012 AED'000	2011 AED'000 (Restated)
Salaries, wages and other benefits	**895,018**	887,982
Staff terminal benefits (note 22 (b))	**19,268**	19,248
Share based payments	**551**	1,653
Total	**914,837**	908,883

40 General and administrative expenses

	2012 AED'000	2011 AED'000 (Restated)
Premises and equipment maintenance costs	**136,187**	108,386
Administrative expenses	**83,894**	90,977
Rental charges under operating leases	**71,597**	67,682
Communication costs	**68,755**	61,672
Printing and stationery	**7,024**	8,873
Other operating expenses	**109,496**	105,506
Total	**476,953**	443,096

41 Impairment loss on financial assets, net

	2012 AED'000	2011 AED'000 (Restated)
Net provision for Islamic financing assets	**769,323**	666,703
Net provision for Islamic investing assets	**115,071**	310,597
Net provision for receivables and other assets	**88,239**	17,664
Total	**972,633**	994,964

42 Impairment loss on non-financial assets, net

	2012	2011
	AED'000	AED'000
		(Restated)
Impairment of investment in associates (note 11(e))	**33,495**	3,128
Impairment of investment properties (note 13 (a))	**31,000**	19,401
Impairment of properties held for sale (note 12 (b))	**6,000**	40,500
Impairment of goodwill	**-**	17,258
Impairment of investment in joint venture	**-**	11,661
Total	**70,495**	91,948

43 Depositors' and sukuk holders share of profit

	2012	2011
	AED'000	AED'000
		(Restated)
Investment and savings deposits from customers (note 18 (d))	**612,542**	699,941
Wakala and other investment deposits from banks (note 22(a))	**521,624**	560,788
Profit accrued on sukuk financing instruments (note 22(a))	**182,039**	126,079
Total	**1,316,205**	1,386,808

44 Basic and diluted earnings per share

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

	2012	2011
		(Restated)
Profit for the year attributable to equity holders of the Bank (AED'000)	**1,150,072**	1,010,141
Less: Directors' remuneration (AED'000)	**(5,350)**	(5,350)
	1,144,722	1,004,791
Weighted average number of shares outstanding during the year ('000)	**3,797,054**	3,797,054
Basic and diluted earnings per share (AED per share)	**AED 0.30**	AED 0.26

(b) As of the reporting date, the diluted earnings per share is equal to the basic earnings per share as the Bank has not issued any financial instruments that should be taken into consideration when the diluted earnings per share is calculated.

45 Cash and cash equivalents

	2012 AED'000	2011 AED'000 (Restated)
Cash and balances with the central banks (note 6 (a))	**15,473,549**	12,952,319
Due from banks and financial institutions (note 7 (b))	**3,169,114**	3,043,096
	18,642,663	15,995,415
Less: Balances and deposits with banks and financial institutions with original maturity over 3 months	**(8,222,357)**	(6,521,845)
Balance at 31 December	**10,420,306**	9,473,570

46 Related party transactions

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

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

(c) The significant balances outstanding at 31 December 2012 and 2011 in respect of related parties included in these consolidated financial statements are as follow

	Major Shareholders AED'000	Directors and key management personnel AED'000	Associates AED'000	Total AED'000
2012				
Islamic financing and investing assets	**1,469,201**	**61,038**	**430,327**	**1,960,566**
Customers' deposits	**1,884,551**	**83,198**	**35,174**	**2,002,923**
Income from Islamic financing and investing assets	**42,608**	**5,383**	**22,301**	**70,292**
Depositors' share of profits	**54,646**	**1,982**	**372**	**57,000**
Contingent liabilities	**-**	**6**	**14,793**	**14,799**
2011 (Restated)				
Islamic financing and investing assets	612,167	34,468	390,000	1,036,635
Customers' deposits	2,676,188	132,076	80,272	2,888,536
Income from Islamic financing and investing assets	37,823	2,384	24,178	64,385
Depositors' share of profits	82,820	23,464	1,741	108,025
Contingent liabilities	-	8	700	708

(d) No impairment allowances have been recognized against financing and investing assets extended to related parties or contingent liabilities issued in favor of related parties during the years ended 31 December 2012 and 2011.

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

	2012 AED'000	2011 AED'000 (Restated)
Salaries and other benefits, including directors' remuneration	**20,779**	26,205
Employee terminal benefits	**3,233**	1,889

47 Segmental information

Reportable segments

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

The Bank's reporting segments are organised into five major business segments as follows:

- Retail and business banking:	Principally handling small and medium businesses and individual customers' deposits, providing consumer and commercial murabahats, Ijarah, islamic card and funds transfer facilities and trade finance facilities.
- Corporate and investment banking:	Principally handling financing and other credit facilities and deposit and current accounts for corporate and institutional customers and investment banking services.
- Real estate:	Property development and other real estate investments.
- Treasury:	Principally responsible for managing the Bank's overall liquidity and market risk and provide treasury services to customers. Treasury also run its own Islamic Sukuk portfolio and specialise financial instruments book to manage the above risk.
- Other:	Functions other than above core lines of businesses.

(b) The accounting policies of the reportable segments are the same as the Bank's accounting policies described in note 4 to these consolidated financial statements.

(c) Transactions between segments are conducted at estimated profit rates which approximate to market rates on an arm's length basis.

(d) Segment profit represents the profit earned by each segment without allocation of income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

47 Segmental information (continued)

Reportable segments (continued)

(e) The following table presents profit and loss information regarding the Bank's business segments for the year ended 31 December:

	Retail and business banking		Corporate and investment banking		Real estate		Treasury		Other		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	AED'000	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)
Net operating revenue *	**1,918,144**	1,835,901	**1,030,625**	1,227,434	**(51,252)**	(164,353)	**504,036**	461,320	**308,566**	257,753	**3,710,119**	3,618,055
Share of profit / (loss) of associates	**-**	-	**60,301**	37,723	**-**	(9,172)	**-**	-	**-**	-	**60,301**	28,551
Operating expense	**(1,053,903)**	(1,047,377)	**(243,587)**	(243,176)	**(89,005)**	(81,351)	**(21,057)**	(21,689)	**(114,785)**	(102,904)	**(1,522,337)**	(1,496,497)
Impairment loss	**(286,439)**	(247,764)	**(750,219)**	(837,957)	**-**	-	**-**	-	**(6,470)**	(1,191)	**(1,043,128)**	(1,086,912)
Profit for the year before income tax	**577,802**	540,760	**97,120**	184,024	**(140,257)**	(254,876)	**482,979**	439,631	**187,311**	153,658	**1,204,955**	1,063,197
Income tax expense											**(12,801)**	(6,782)
Profit for the year											**1,192,154**	1,056,415

* Operating revenue is reported net as management primarily relies on net operating revenue as a performance measure, not the gross operating income and expense.

47 Segmental information (continued)

Reportable segments (continued)

(f) The following table presents assets, liabilities and equity regarding the Bank's business segments:

	Retail and business banking		Corporate and investment banking		Real estate		Treasury		Other		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000	**AED'000**	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)
Segment assets	**25,178,723**	23,916,930	**35,872,768**	31,791,056	**3,650,150**	3,874,977	**12,511,922**	13,940,058	**18,151,136**	17,065,443	**95,364,699**	90,588,464
Segment liabilities and equity	**48,779,670**	47,519,470	**21,877,534**	20,893,587	**448,184**	897,844	**11,714,777**	8,716,516	**12,544,534**	12,561,047	**95,364,699**	90,588,464
Capital expenditure	**24,260**	17,441	**24,260**	17,441	**-**	-	**16,174**	11,628	**16,173**	11,628	**80,867**	58,138

47 Segmental information (continued)

Geographical information

(g) Although the management of the Bank is based primarily on business segments, the Bank operates in two geographic markets: inside the U.A.E. which is designated as domestic and outside the U.A.E. which is designated as international.

(h) The following table shows the distribution of the Bank's external gross income and non-current assets allocated based on the location of the operating centres for the years ended 31 December 2012 and 2011:

	Gross income from external customers		Non-current assets *	
	2012	2011	**2012**	2011
	AED'000	AED'000	**AED'000**	AED'000
		(Restated)		(Restated)
Domestic	**4,622,379**	4,608,770	**1,958,115**	1,818,469
International	**464,246**	424,644	**531,050**	548,146
Total	**5,086,625**	5,033,414	**2,489,165**	2,366,615

* Non-current assets exclude financial instruments, investments in associates and deferred tax assets.

Revenue from major products and services

(i) Revenue from major products and services are disclosed in notes 32, 33, 34, 35, 36 and 37 to the consolidated financial statements.

48 Islamic derivatives financial instruments

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

48 Islamic derivatives financial instruments (continued)

2012

	Positive fair value (note 14)	Negative fair value (note 22)	Notional amount total	Notional amounts by term to maturity				
				Within 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 to 5 years	Over 5 years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Islamic Derivatives held for trading:								
Unilateral promise to buy/sell currencies	**29,830**	**27,963**	**12,018,647**	**4,656,381**	**7,362,266**	**-**	**-**	**-**
Islamic profit rate Swaps	**11,458**	**-**	**5,123,176**	**-**	**-**	**2,349,880**	**2,473,295**	**300,000**
Total	**41,288**	**27,963**	**17,141,823**	**4,656,381**	**7,362,266**	**2,349,880**	**2,473,295**	**300,000**

2011 (Restated)

	Positive fair value (note 14)	Negative fair value (note 22)	Notional amount total	Notional amounts by term to maturity				
				Within 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 to 5 years	Over 5 years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Islamic Derivatives held for trading:								
Unilateral promise to buy/sell currencies	27,164	23,897	7,486,069	1,924,071	5,561,998	-	-	-
Islamic profit rate Swaps	38,832	-	9,299,959	-	6,588,590	146,920	1,941,443	623,006
Total	65,996	23,897	16,786,028	1,924,071	12,150,588	146,920	1,941,443	623,006

(b) Disclosures concerning the fair value of Islamic derivatives are provided in risk management note below.

(c) The Bank has positions in the following types of Islamic derivatives:

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

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

49 Maturity analysis of assets and liabilities

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

2012

	Less than one month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets:						
Cash and balances with central banks	3,061,544	4,096,076	8,218,972	96,957	-	15,473,549
Due from banks and financial institutions	2,350,950	818,164	-	-	-	3,169,114
Islamic financing and investing assets, net	2,867,061	4,907,168	8,963,973	24,751,958	14,069,943	55,560,103
Investment in Islamic sukuk	23,853	22,104	2,187,964	7,998,864	855,877	11,088,662
Other investments	-	-	613,061	1,531,810	-	2,144,871
Investments in associates	-	-	-	-	2,294,028	2,294,028
Properties held for sale	-	-	-	224,909	-	224,909
Investment properties	-	-	-	-	1,931,808	1,931,808
Receivables and other assets	134,622	53,556	1,930,662	800,086	1,372	2,920,298
Property and equipment	7,414	15,491	82,872	118,533	333,047	557,357
Total assets	8,445,444	9,912,559	21,997,504	35,523,117	19,486,075	95,364,699
Liabilities and equity:						
Customers' deposits	6,910,322	9,214,219	28,266,824	22,330,684	78,803	66,800,852
Due to banks and financial institutions	586,651	173,229	3,249,659	2,148,750	-	6,158,289
Sukuk financing instruments	634,960	-	1,100,000	2,939,000	-	4,673,960
Medium term wakala finance	-	-	-	3,752,543	-	3,752,543
Payables and other liabilities	1,239,873	1,129,317	392,053	493,683	702	3,255,628
Zakat payable	-	-	163,572	-	-	163,572
Equity	-	-	569,558	(820,130)	10,810,427	10,559,855
Total liabilities and equity	9,371,806	10,516,765	33,741,666	30,844,530	10,889,932	95,364,699

49 Maturity analysis of assets and liabilities (continued)

2011 (Restated)

	Less than one month AED'000	1 month to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets:						
Cash and balances with central banks	2,353,995	5,081,320	5,517,004	-	-	12,952,319
Due from banks and financial institutions	2,529,596	513,500	-	-	-	3,043,096
Islamic financing and investing assets, net	4,205,901	3,201,254	8,847,308	21,965,054	13,287,532	51,507,049
Investment in Islamic sukuk	13	1,951	140,070	11,260,998	1,285,079	12,688,111
Other investments	-	-	586,761	1,447,628	-	2,034,389
Investments in associates	-	-	-	-	2,336,439	2,336,439
Properties held for sale	-	-	-	609,756	-	609,756
Investment properties	-	-	-	-	1,785,205	1,785,205
Receivables and other assets	791,417	88,028	1,287,912	847,489	35,844	3,050,690
Property and equipment	9,595	18,642	82,157	142,375	328,641	581,410
Total assets	9,890,517	8,904,695	16,461,212	36,273,300	19,058,740	90,588,464
Liabilities and equity:						
Customers' deposits	8,359,394	6,781,147	28,294,049	21,472,142	23,107	64,929,839
Due to banks and financial institutions	451,096	125,275	1,327,135	2,148,927	-	4,052,433
Sukuk financing instruments	-	2,357,074	-	1,816,909	-	4,173,983
Medium term wakala finance	-	-	-	3,752,543	-	3,752,543
Pyabales and other liabilities	1,424,634	173,891	811,599	968,486	6,223	3,384,833
Zakat payable	-	-	121,076	-	-	121,076
Equity	-	-	379,705	(831,849)	10,625,901	10,173,757
Total liabilities and equity	10,235,124	9,437,387	30,933,564	29,327,158	10,655,231	90,588,464

50 Financial instruments classification

The table below sets out the Bank's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2012 and 2011:

	Fair value through OCI	Fair value through profit or loss	Amortised cost	Carrying amount
2012	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Financial assets				
Cash and balances with central banks	**-**	**-**	**15,473,549**	**15,473,549**
Due from banks and financial institutions	**-**	**-**	**3,169,114**	**3,169,114**
Islamic financing and investing assets, net	**-**	**-**	**55,560,103**	**55,560,103**
Investment in Islamic sukuk measured at amortised cost	**-**	**-**	**11,088,662**	**11,088,662**
Other investments	**2,142,648**	**2,223**	**-**	**2,144,871**
Receivables and other assets	**-**	**41,288**	**2,763,125**	**2,804,413**
	2,142,648	**43,511**	**88,054,553**	**90,240,712**
Financial liabilities				
Customers' deposits	**-**	**-**	**66,800,852**	**66,800,852**
Due to banks and financial institutions	**-**	**-**	**6,158,289**	**6,158,289**
Sukuk financing instruments	**-**	**-**	**4,673,960**	**4,673,960**
Medium term wakala finance	**-**	**-**	**3,752,543**	**3,752,543**
Payables and other liabilities	**-**	**27,963**	**3,076,521**	**3,104,484**
	-	**27,963**	**84,462,165**	**84,490,128**
2011 (Restated)				
Financial assets				
Cash and balances with central banks	-	-	12,952,319	12,952,319
Due from banks and financial institutions	-	-	3,043,096	3,043,096
Islamic financing and investing assets, net	-	-	51,507,049	51,507,049
Investment in Islamic sukuk measured at amortised cost	-	-	12,688,111	12,688,111
Other investments	1,981,402	52,987	-	2,034,389
Receivables and other assets	-	65,996	2,874,422	2,940,418
	1,981,402	118,983	83,064,997	85,165,382
Financial liabilities				
Customers' deposits	-	-	64,929,839	64,929,839
Due to banks and financial institutions	-	-	4,052,433	4,052,433
Sukuk financing instruments	-	-	4,173,983	4,173,983
Medium term wakala finance	-	-	3,752,543	3,752,543
Payables and other liabilities	-	23,897	3,221,017	3,244,914
	-	23,897	80,129,815	80,153,712

51 Fair value of financial instruments

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

(a) Fair value of financial instruments measured at amortised cost
Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statement approximate their fair values.

	Carrying amount	Fair value
2012	**AED'000**	**AED'000**
Financial assets:		
Investments in Islamic sukuk	**11,088,662**	**11,488,181**
2011 (Restated)		
Financial assets:		
Investments in Islamic sukuk	12,688,111	12,460,931

(b) Valuation techniques and assumptions applied for the purposes of measuring fair value
Valuation of financial instruments recorded at fair value, is based on quoted market prices and other valuation techniques.

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on the present value calculation of the expected future cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

(c) Fair value measurements recognised in the consolidated statement of financial position
The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1 – Quoted prices (unadjusted) in active markets for identical financial assets or liabilities. This level includes listed equity securities classified as other investments.
Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over the counter Islamic derivative arrangements. The sources of input parameters like variable yield curve or counterparty credit risk are obtained from Bloomberg and Reuters.

51 Fair value of financial instruments (continued)

(c) Fair value measurements recognised in the consolidated statement of financial position (continued)

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes unquoted equity investments classified as other investments with significant unobservable components.

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

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

2012

	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000
Other investments measured at fair value				
Investments designated at fair value through profit or loss				
Quoted equity instruments	2,223	-	-	2,223
Investments carried at fair value through other comprehensive income				
Quoted equity instruments	610,838	-	-	610,838
Unquoted equity instruments	-	-	990,577	990,577
Unquoted investment funds	-	-	541,233	541,233
Other assets				
Islamic derivative assets	-	41,288	-	41,288
Total financial assets measured at fair value	613,061	41,288	1,531,810	2,186,159
Other liabilities				
Islamic derivative liabilities	-	27,963	-	27,963

51 Fair value of financial instruments (continued)

(c) Fair value measurements recognised in the consolidated statement of financial position (continued)

2011 (Restated)

	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000
Other investments measured at fair value				
Investments designated at fair value through profit or loss				
Quoted equity instruments	52,987	-	-	52,987
Investments carried at fair value through other comprehensive income				
Quoted equity instruments	533,774	-	-	533,774
Unquoted equity instruments	-	-	1,092,820	1,092,820
Unquoted investment funds	-	-	354,808	354,808
Other assets				
Islamic derivative assets	-	65,996	-	65,996
Total financial assets measured at fair value	586,761	65,996	1,447,628	2,100,385
Other liabilities				
Islamic derivative liabilities	-	23,897	-	23,897

There were no transfers between Level 1 and 2 during the years ended 31 December 2012 and 2011.

(d) Reconciliation of Level 3 fair value measurement of financial assets measured at fair value through other comprehensive income

	2012	2011
	AED'000	AED'000
		(Restated)
Balance at1 January	**1,447,628**	-
IFRS 9 related adjustment	**-**	589,681
(Losses)/gains in other comprehensive income	**(74,025)**	25,971
Reclassified from investment in subsidiaries or associates	**183,265**	841,817
Purchased during the year	**4,591**	5,510
Disposed during the year	**(29,649)**	(15,351)
Balance at 31 December	**1,531,810**	1,447,628

52 Risk management

52.1 Introduction

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

The Bank is exposed to various risks including:
- Credit risk,
- Liquidity risk,
- Market risk, and
- Operational risk.

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

52.1.1 Risk management structure

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

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

Board Risk Management Committee
The Board Risk Management Committee has the overall responsibility for the development of the risk strategies, frameworks, policies and limits, and for recommending these strategies and policies to the Board of Directors. It is responsible for the fundamental risk issues, and manages and monitors relevant risk decisions.

Risk Management Committee
The day-to-day management of risk has been delegated to Risk Management Committee which is headed by the Chief Executive Officer ("CEO").

The Risk Management Committee has the overall responsibility to support the Board Risk Management Committee for the development and formulation of the risk strategy, frameworks, policies and limits. It is responsible for ensuring the compliance with all risk limits, monitoring risk exposures and implementing the regulatory guidelines issued by the regulatory bodies (e.g. The Central Bank of the U.A.E.).

Risk Management Department
The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure risk remains within the acceptable range as approved by the Board Risk Management Committee and the Board of Directors. The department is responsible for credit approval, credit administration, portfolio management, credit risk, market risk, operational risk and overall risk control.

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

52 Risk management (continued)
52.1 Introduction (continued)
52.1.1 Risk management structure (continued)

Bank Internal Audit Department

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

52.1.2 Risk measurement and reporting systems

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

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

Information compiled from all the businesses is examined and processed in order to analyse the risk profile and identify early risks. This information is presented and explained to the management, management committees, Board Risk Management Committee, and the Risk Management Committee. Specialized reports are presented to the pertinent heads of business and are delivered with a frequency suited to the volatility of the risk. The report includes aggregate credit exposure, limit exceptions, liquidity, operational loss incidents and other risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the provision for impairment losses on a quarterly basis.

52.1.3 Risk mitigation

As part of its overall risk management, the Bank uses various methods to manage exposures resulting from changes in credit risks, liquidity risks, market risks (including profit rate risk, foreign exchange risk, and equity price risk), and operational risks.

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

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

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

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

52 Risk management (continued)
52.1 Introduction (continued)
52.1.4 Risk concentration

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

52.2 Credit risk

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

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

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

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

- Mortgages over residential and commercial properties;
- Corporate guarantees;
- Charges over business assets such as premises, machinery, vehicles and inventory; and
- Charges over financial instruments such as deposits and equity investments.

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

52 Risk management (continued)
52.2 Credit risk (continued)

Credit-related commitments risks

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

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

The table below shows the maximum exposure to credit risk by class of financial asset, including Islamic derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2012 AED'000	Gross maximum exposure 2011 AED'000 (Restated)
Balances with central banks	**13,741,965**	11,457,902
Due from banks and financial institutions	**3,169,114**	3,043,096
Islamic financing and investing assets	**59,259,525**	55,015,923
Investment in Islamic sukuk measured at amortised cost	**11,088,662**	12,688,111
Other investments	**2,144,871**	2,034,389
Receivables and other assets	**3,386,029**	3,470,764
	92,790,166	87,710,185
Contingent liabilities	**9,763,216**	9,592,774
Commitments	**10,660,579**	9,073,076
Total	**113,213,961**	106,376,035

52.2.2 Risk concentrations of the maximum exposure to credit risk

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

52 Risk management (continued)
52.2 Credit risk (continued)
52.2.2 Risk concentrations of the maximum exposure to credit risk (continued)

	Retail and business banking AED'000	Wholesale banking AED'000	Total AED'000
2012			
The U.A.E.	**26,676,833**	**80,294,488**	**106,971,321**
Other Gulf Cooperation Council (GCC) countries	**-**	**2,172,038**	**2,172,038**
South Asia	**420,184**	**2,118,716**	**2,538,900**
Europe	**3,866**	**990,405**	**994,271**
Africa	**-**	**292,603**	**292,603**
Other	**70**	**244,758**	**244,828**
Total	**27,100,953**	**86,113,008**	**113,213,961**
2011 (Restated)			
The U.A.E.	25,789,737	74,954,896	100,744,633
Other Gulf Cooperation Council (GCC) countries	-	2,348,913	2,348,913
South Asia	456,910	1,796,895	2,253,805
Europe	-	139,223	139,223
Africa	-	119,629	119,629
Other	-	769,832	769,832
Total	26,246,647	80,129,388	106,376,035

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

	Gross maximum exposure	
	2012 AED'000	2011 AED'000 (Restated)
Financial Institutions	**24,893,794**	22,321,844
Real estate	**28,637,719**	28,754,558
Manufacturing and services	**16,879,112**	16,189,578
Consumer financing	**14,089,656**	13,022,023
Consumer home finance	**13,509,830**	12,555,511
Government	**9,606,045**	8,481,713
Trade	**5,597,805**	5,050,808
Total	**113,213,961**	106,376,035

52 Risk management (continued)
52.2 Credit risk (continued)
52.2.3 Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:
- For commercial Islamic financing and investing facilities, charges over real estate properties, inventory, leased assets and trade receivables, and
- For retail Islamic financing and investing facilities, charge over assets and mortgages over properties.

The Bank also obtains guarantees from parent companies for Islamic financing and investing assets granted to their subsidiaries, but the benefits are not included in the above table.

52 Risk management (continued)
52.2 Credit risk (continued)
52.2.4 Credit quality per class of financial assets

2012	Balances with central banks and due from banks and financial institutions	Islamic financing and investing assets	Investments in Islamic sukuk and other investments	Receivables and other assets	Contingent liabilities and commitments	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Individually impaired						
Gross amount	-	6,118,079	-	1,295,434	-	7,413,513
Non-impaired exposures						
Neither past due nor impaired	16,911,079	47,783,732	13,233,533	2,036,740	20,423,795	100,388,879
Past due by less than 30 days	-	1,924,924	-	53,855	-	1,978,779
Past due by more than 30 days but less than 90 days	-	1,460,583	-	-	-	1,460,583
Past due by more than 90 days	-	1,972,207	-	-	-	1,972,207
Gross amount	16,911,079	53,141,446	13,233,533	2,090,595	20,423,795	105,800,447
Total gross maximum exposure	16,911,079	59,259,525	13,233,533	3,386,029	20,423,795	113,213,961
Allowances for impairment	-	(3,699,422)	-	(581,616)	-	(4,281,038)
Net carrying amount	16,911,079	55,560,103	13,233,533	2,804,413	20,423,795	108,932,923

52 Risk management (continued)
52.2 Credit risk (continued)
52.2.4 Credit quality per class of financial assets (continued)

2011 (Restated)	Balances with central banks and due from banks and financial institutions	Islamic financing and investing assets	Investments in Islamic sukuk and other investments	Receivables and other assets	Contingent liabilities and commitments	Total
Individually impaired						
Gross amount	-	6,807,616	-	1,311,334	-	8,118,950
Non-impaired exposures						
Neither past due nor impaired	14,500,998	44,915,196	14,722,500	2,131,679	18,665,850	94,936,223
Past due by less than 30 days	-	1,145,235	-	27,751	-	1,172,986
Past due by more than 30 days but less than 90 days	-	877,080	-	-	-	877,080
Past due by more than 90 days	-	1,270,796	-	-	-	1,270,796
Gross amount	14,500,998	48,208,307	14,722,500	2,159,430	18,665,850	98,257,085
Total gross maximum exposure	14,500,998	55,015,923	14,722,500	3,470,764	18,665,850	106,376,035
Allowances for impairment	-	(3,508,874)	-	(521,200)	-	(4,030,074)
Net carrying amount	14,500,998	51,507,049	14,722,500	2,949,564	18,665,850	102,345,961

52 Risk management (continued)
52.2 Credit risk (continued)
52.2.4 Credit quality per class of financial assets (continued)

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

	Moody's equivalent grades	Total 2012 AED'000	Total 2011 AED'000 (Restated)
Low risk			
Risk rating class 1	Aaa	**17,230,877**	13,528,493
Risk rating classes 2 and 3	Aa1-A3	**18,491,785**	17,328,607
Fair risk			
Risk rating class 4	Baa1-Baa3	**20,499,230**	8,986,784
Risk rating classes 5 and 6	Ba1-B3	**33,555,932**	40,781,357
Risk rating class 7	Caa1-Caa3	**14,701,539**	16,158,030
High risk			
Risk rating classes 8 to11		**8,734,598**	9,592,764
		113,213,961	106,376,035

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

52.2.5 Impairment assessment

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

Individually assessed allowances

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

52 Risk management (continued)
52.2 Credit risk (continued)
52.2.5 Impairment assessment (continued)

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

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

Acceptances and contingent liabilities are assessed and provisions made in a similar manner as for Islamic financing and investing assets.

52.3 Liquidity risk and funding management

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

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

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

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

52 Risk management (continued)
52.3 Liquidity risk and funding management (continued)
52.3.1 Liquidity risk management process

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

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

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

	March	June	September	December
2012	**21%**	**25%**	**23%**	**22%**
2011 (Restated)	28%	31%	26%	21%

52.3.2 Funding approach

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

During the year ended 31 December 2012, the Bank issued a five-year sukuk AED 1,837 million (USD 500 million) sukuk to diversify sources of funding to support business growth going forward (note 20).

52.3.3 Non-derivative cash flows

The table below summarises the maturity profile of the gross cash flows of the Bank's financial assets and liabilities as at 31 December 2012 and 2011. The amounts disclosed in the table are the contractual gross cash flows, whereas the Bank manages the inherent liquidity risk based on expected gross cash flows.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the management expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

52 Risk management (continued)
52.3 Liquidity risk and funding management (continued)
52.3.3 Non-derivative cash flows (continued)

	On demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
2012						
Balances with central banks	**3,123,315**	**4,186,484**	**8,240,797**	**97,315**	**-**	**15,647,911**
Due from banks and financial institutions	**528,113**	**2,641,207**	**-**	**-**	**-**	**3,169,320**
Islamic financing and investing assets, net	**5,613,187**	**10,358,216**	**9,493,686**	**27,046,938**	**21,804,536**	**74,316,563**
Investment in Islamic sukuk	**5,295**	**40,879**	**2,216,941**	**9,986,142**	**1,119,821**	**13,369,078**
Other investments	**-**	**-**	**613,061**	**1,531,810**	**-**	**2,144,871**
Receivables and other assets	**142,583**	**66,875**	**1,787,507**	**1,044,175**	**2,751**	**3,043,891**
Total assets	**9,412,493**	**17,293,661**	**22,351,992**	**39,706,380**	**22,927,108**	**111,691,634**
Customers' deposits	**23,219,576**	**18,259,290**	**11,247,196**	**17,168,237**	**79,095**	**69,973,394**
Due to banks and other financial institutions	**743,830**	**174,029**	**3,365,259**	**2,323,038**	**-**	**6,606,156**
Sukuk financing instruments	**-**	**1,102,187**	**1,119,559**	**3,533,591**	**-**	**5,755,337**
Medium term wakala finance	**-**	**-**	**-**	**4,052,746**	**-**	**4,052,746**
Payables and other liabilities	**894,555**	**1,228,508**	**541,878**	**589,281**	**1,406**	**3,255,628**
Zakat payable	**-**	**-**	**163,572**	**-**	**-**	**163,572**
Total liabilities	**24,857,961**	**20,764,014**	**16,437,464**	**27,666,893**	**80,501**	**89,806,833**
2011 (Restated)						
Balances with central banks	2,267,577	5,169,220	5,543,329	-	-	12,980,126
Due from banks and financial institutions	578,966	2,464,250	-	-	-	3,043,216
Islamic financing and investing assets, net	6,666,872	5,285,198	13,273,753	26,953,980	18,755,600	70,935,403
Investment in Islamic sukuk	13	1,968	140,395	12,837,538	1,599,923	14,579,837
Other investments	-	-	586,761	1,447,628	-	2,034,389
Receivables and other assets	42,416	88,028	2,072,768	1,311,634	5,844	3,520,690
Total assets	9,555,844	13,008,664	21,617,006	42,550,780	20,361,367	107,093,661
Customers' deposits	26,672,736	14,148,104	10,645,391	16,289,557	32,127	67,787,915
Due to banks and other financial institutions	183,309	437,772	1,773,434	2,206,762	-	4,601,277
Sukuk financing instruments	-	-	2,404,861	2,361,376	-	4,766,237
Medium term wakala finance	-	-	-	4,352,950	-	4,352,950
Payables and other liabilities	1,424,634	173,891	811,599	968,486	6,223	3,384,833
Zakat payable	-	-	121,076	-	-	121,076
Total liabilities	28,280,679	14,759,767	15,756,361	26,179,131	38,350	85,014,288

52 Risk management (continued)
52.3 Liquidity risk and funding management (continued)
52.3.3 Non-derivative cash flows (continued)

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

52.3.4 Islamic derivative maturity profile

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

- Unilateral promise to buy/sell currencies: This mainly comprise promises to either buy or sell a specified currency at a specific price and date in the future.
- Islamic profit rate swaps: The transactions are settled by executing the purchase or sale of commodity under "Murabaha Sale Agreement".

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

	On demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
2012						
Unilateral promise to buy/sell currencies	**-**	**4,656,381**	**7,362,266**	**-**	**-**	**12,018,647**
Islamic profit rate swaps	**-**	**-**	**-**	**4,823,176**	**300,000**	**5,123,176**
	-	**4,656,381**	**7,362,266**	**4,823,176**	**300,000**	**17,141,823**
2011 (Restated)						
Unilateral promise to buy/sell currencies	-	1,924,071	5,561,998	-	-	7,486,069
Islamic profit rate swaps	-	-	6,588,590	2,088,363	623,006	9,299,959
	-	1,924,071	12,150,588	2,088,363	623,006	16,786,028

52 Risk management (continued)
52.3 Liquidity risk and funding management (continued)
52.3.5 Contingent liabilities and commitments

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

2012

	On demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Contingent liabilities:						
- Letters of guarantee	-	5,509,650	1,528,333	761,220	1,718	7,800,921
- Letters of credit	-	1,563,847	397,861	587	-	1,962,295
	-	7,073,497	1,926,194	761,807	1,718	9,763,216
Capital expenditure commitments	-	-	12,135	255,436	-	267,571
Total	-	7,073,497	1,938,329	1,017,243	1,718	10,030,787

2011 (Restated)

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

52 Risk management (continued)
52.4 Market risk

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

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

The trading market risk framework comprises the following elements:

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

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

52.4.1 Profit margin risk

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

52.4.2 Profit rate risk

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

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

52 Risk management (continued)
52.4 Market risk (continued)
52.4.2 Profit rate risk (continued)

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

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

Currency	**Increase in basis points**	**Sensitivity of profit on Islamic financing and investing assets**	Sensitivity of profit on Islamic financing and investing assets
		2012 AED'000	2011 AED'000 (Restated)
AED	**50**	**48,575**	48,296
USD	**50**	**5,850**	23,648

52.4.3 Foreign exchange risk

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

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2012 and 2011. Included in the table are the Bank's financial instruments at their carrying amounts, categorised by currency.

52 Risk management (continued)
52.4 Market risk (continued)
52.4.3 Foreign exchange risk (continued)

2012

	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Other AED'000	Total AED'000
Financial Assets:							
Cash and balances with central banks	15,200,459	203,004	-	-	-	70,086	15,473,549
Due from banks and financial institutions	848,034	2,108,489	66,362	71,630	50,805	23,794	3,169,114
Islamic financing and investing assets, net	50,013,671	4,180,344	200,374	7,243	-	1,158,471	55,560,103
Investment in Islamic sukuk measured at amortised cost	2,132,513	8,103,600	-	-	-	852,549	11,088,662
Other investments	1,073,635	777,895	149,064	74,919	3,486	65,872	2,144,871
Receivables and other assets	2,694,053	39,859	653	12,816	-	57,032	2,804,413
Total	71,962,365	15,413,191	416,453	166,608	54,291	2,227,804	90,240,712
Financial Liabilities:							
Customers' deposits	61,383,375	3,187,854	7,510	220,251	45,038	1,956,824	66,800,852
Due to banks and other financial institutions	4,975,530	1,104,029	-	435	11,419	66,876	6,158,289
Sukuk financing instruments	639,810	4,034,150	-	-	-	-	4,673,960
Medium term wakala finance	3,752,543	-	-	-	-	-	3,752,543
Payables and other liabilities	2,709,692	327,198	11,436	1,617	574	53,967	3,104,484
Total	73,460,950	8,653,231	18,946	222,303	57,031	2,077,667	84,490,128
Net on balance sheet	(1,498,585)	6,759,960	397,507	(55,695)	(2,740)	150,137	5,750,584
Unilateral promise to buy/sell currencies	9,809,055	(9,628,614)	(291,934)	3,196	12,489	95,808	-
Currency position - long/(short)	8,310,470	(2,868,654)	105,573	(52,499)	9,749	245,945	5,750,584

52 Risk management (continued)
52.4 Market risk (continued)
52.4.3 Foreign exchange risk (continued)

2011 (Restated)

	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Other AED'000	Total AED'000
Financial Assets:							
Cash and balances with central banks	12,464,366	384,235	-	3,291	-	100,427	12,952,319
Due from banks and financial institutions	2,017,030	789,822	197,843	6,697	15,863	15,841	3,043,096
Islamic financing and investing assets, net	46,065,576	4,275,037	61,878	-	12,584	1,091,974	51,507,049
Investment in Islamic sukuk measured at amortised cost	5,308,625	6,894,889	-	-	-	484,597	12,688,111
Other investments	931,468	768,337	142,503	922	101,916	89,243	2,034,389
Receivables and other assets	2,716,328	138,862	-	-	12,439	72,789	2,940,418
Total	69,503,393	13,251,182	402,224	10,910	142,802	1,854,871	85,165,382
Financial Liabilities:							
Customers' deposits	58,324,061	4,930,075	22,987	32,162	161,086	1,459,468	64,929,839
Due to banks and other financial institutions	3,741,153	229,220	-	678	2,443	78,939	4,052,433
Sukuk financing instruments	1,100,000	3,073,983	-	-	-	-	4,173,983
Medium term wakala finance	3,752,543	-	-	-	-	-	3,752,543
Payables and other liabilities	2,678,808	358,433	167,594	594	2,375	37,110	3,244,914
Total	69,596,565	8,591,711	190,581	33,434	165,904	1,575,517	80,153,712
Net on balance sheet	(93,172)	4,659,471	211,643	(22,524)	(23,102)	279,354	5,011,670
Unilateral promise to buy/sell currencies	5,906,329	(5,727,195)	(147,315)	10,887	(42,305)	(401)	-
Currency position - long/(short)	5,813,157	(1,067,724)	64,328	(11,637)	(65,407)	278,953	5,011,670

52 Risk management (continued)
52.4 Market risk (continued)
52.4.3 Foreign exchange risk (continued)

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

The tables below indicate the extent to which the Bank was exposed to currency risk at 31 December 2012 and 2011 on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against the AED with all other variables held constant on the consolidated income statement (due to the changes in the fair values of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated available-for-sale equity instruments). A negative amount in the table reflects a potential net reduction in consolidated income statement and equity, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

Currency	Increase in currency rate in %	Effect on profit before tax 2012	Effect on profit before tax 2011
		AED'000	AED'000
			(Restated)
GBP	+2	1,049	233
EURO	+2	(195)	1,308

Currency	Decrease in currency rate in %	Effect on profit before tax 2012	Effect on profit before tax 2011
		AED'000	AED '000
			(Restated)
GBP	-2	(1,049)	(233)
EURO	-2	195	(1,308)

52.4.4 Foreign investment

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

The table below indicates the change in recorded profit before tax and equity had the result for the year ended 31 December 2012 and 2011 been translated at exchange rates against the AED adjusted, with all other variables held constant, by the assumed changes below. The sensitivity analyses do not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

52 Risk management (continued)
52.4 Market risk (continued)
52.4.4 Foreign investment (continued)

Currency	Increase in currency rate in %	Effect on profit before tax 2012	Effect on equity 2012	Effect on profit before tax 2011	Effect on equity 2011
		AED'000	AED'000	AED'000	AED'000
				(Restated)	(Restated)
Pak Rupees	+5	1,025	13,551	1,346	15,683
Egypt Sterling	+5	1,075	8,975	705	10,803

Currency	Decrease in currency rate in %	Effect on profit before tax 2012	Effect on equity 2012	Effect on profit before tax 2011	Effect on Equity 2011
		AED'000	AED'000	AED'000	AED'000
				(Restated)	(Restated)
Pak Rupees	-5	(156)	(12,261)	(151)	(10,476)
Egypt Sterling	-5	(254)	(8,122)	(638)	(7,191)

52.4.5 Equity price risk

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

The effect on equity (as a result of a change in the fair value of equity instruments held as fair value through other comprehensive income (FVTOCI) at 31 December 2012 and 2011 and as available-for-sale at 31 December 2011) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market indices	Change in market indices	Effect on consolidated income statement 2012	Effect on equity 2012	Effect on consolidated income statement 2011	Effect on equity 2011
	%	AED'000	AED'000	AED'000	AED'000
				(Restated)	(Restated)
Dubai Financial Market	+ 5%	112	16,522	317	13,594
Abu Dhabi Exchange	+ 5%	-	3,794	-	2,950
Bahrain Stock Exchange	+ 5%	-	1,970	-	2,547
Saudi Stock Exchange	+ 5%	-	3,417	-	3,805
Doha Stock Exchange	+ 5%	-	2,041	-	1,736
Other	+ 5%	-	2,304	-	1,965

52 Risk management (continued)
52.5 Operational risk

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

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

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

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

53 Capital management
53.1 Capital management objective

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

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

53.2 Regulatory capital

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

53 Capital management (continued)
53.2 Regulatory capital (continued)

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

- Tier 1 capital, which includes share capital, statutory reserves, donated land reserve, general reserve, retained earnings, exchange translation reserve and non-controlling interests, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy calculation purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities (i.e. Medium term wakala finance), collective impairment allowance and investment fair value reserve relating to unrealised gain/loss on equity instruments measured as FVTOCI.

Various limits are applied to elements of the capital base:

- Tier 2 capital cannot exceed 67% of tier 1 capital;
- Tier 1 capital must be a minimum of 7% of risk weighted assets; and
- Qualifying subordinated liabilities capital cannot exceed 50 percent of tier 1 capital.

The Bank's assets are risk weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes profit rate risk, foreign exchange risk, equity exposure risk, and commodity risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

The Bank is following the standardised approach for credit, market and operational risk, as permitted by the U.A.E. Central Bank and as per Pillar 1 of Basel 2.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a monthly or/and quarterly basis. During the years ended 31 December 2012 and 2011, the Bank complied in full with all its externally imposed capital requirements.

During the years ended 31 December 2012 and 2011, all banks operating in the U.A.E. are required to maintain a capital adequacy ratio at 12%.

No changes have been made to the objectives, policies and processes from the previous year. However, they are under constant review by the management.

53 Capital management (continued)
53.3 Capital adequacy ratio ("CAR")

Basel 2 and the U.A.E. Central Bank requirements are followed in calculating the following ratios:

	2012 AED'000	2011 AED'000 (Restated)
Tier 1 Capital		
Share capital	**3,797,054**	3,797,054
Other reserves	**5,348,964**	5,348,964
Retained earnings	**725,192**	563,777
Non-controlling interest	**965,971**	971,427
	10,837,181	10,681,222
Less:		
Cumulative deferred exchange losses	**(197,192)**	(105,560)
	10,639,989	10,575,662
Tier 2 Capital		
Investment fair value reserve	**(820,130)**	(831,849)
Collective impairment allowance	**696,179**	842,735
Medium term wakala finance	**3,002,034**	3,752,543
Deductions for associates	**(477,491)**	(602,255)
	2,400,592	3,161,174
Total capital base	**13,040,581**	13,736,836
Risk weighted assets		
Credit risk	**69,353,608**	70,353,269
Market risk	**1,910,767**	1,174,630
Operational risk	**3,840,839**	3,745,404
Total risk weighted assets	**75,105,214**	75,273,303
Capital Ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets ("capital adequacy ratio")	**17.4%**	18.2%
Tier 1 capital to total risk weighted assets after deductions for associates	**13.9%**	13.6%

54 Comparative amounts
54.1 Early adoption of International Financial Reporting Standard 9

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

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

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

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

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

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

	Investments fair value reserve AED'000	Retained earnings AED'000
Investment in AFS Islamic Sukuks		
• Reversal of related revaluation reserve	(4,784)	-
• Impact of funded income at effective profit rate in previous periods	-	252
Other equity investments		
• FVTPL equity investments – cumulative fair value impacts earlier accounted in consolidated statement of income in earlier years	(14,658)	14,658
• Quoted AFS investments – cumulative impairment losses accounted in consolidated income statement in earlier years	(422,531)	422,531
• Unquoted equity investments – re-measured at FVTOCI	-	(473,511)
	(441,973)	(36,070)

54 Comparative amounts (continued)
54.2 Reclassifications

The consolidated financial statements as at and for the year ended 31 December 2011 have been restated as a result of reclassification of:

(a) Profit and other income receivables amounting to AED 828 million from 'receivables and other assets' to their respective financial statements line-items (i.e. 'Islamic financing and investing assets (AED 700 million)' and 'Investments in Islamic sukuk (AED 128 million)'). This amount was reclassified in order to be in compliance with the requirements of International Financial Reporting Standard 7 (IFRS 7) which require that the carrying amounts of each financial instruments that are measured at amortized cost to be disclosed either in the statement of financial position or in the notes.

(b) Depositors' share of profit payable amounting to AED 159 million from 'payables and other liabilities' to 'customers' deposits'. This amount was reclassified in order to be in compliance with the requirements of International Financial Reporting Standard 7 (IFRS 7) which require that the carrying amounts of each financial instruments that are measured at amortized cost to be disclosed either in the statement of financial position or in the notes.

(c) Certain Islamic financing and investing assets amounting to AED 779 million (net of provision amounting to AED 470 million) from 'Islamic financing and investing assets' to 'receivables and other assets'. These assets are not meeting the definition of Islamic financing and investing assets; therefore, they were reclassified to receivables and other assets (Note 14).

As a result, the Bank has restated the following financial statements line-items:

	31 December 2011		
	As previously reported	Reclassification	As restated
	AED'000	AED'000	AED'000
Consolidated financial position			
Assets:			
Islamic financing and investing assets, net	51,586,088	(79,039)	51,507,049
Investments in Islamic sukuk	12,560,426	127,685	12,688,111
Receivables and other assets	3,099,336	(48,646)	3,050,690
Liabilities:			
Customers' deposits	64,771,317	158,522	64,929,839
Payables and other liabilities	3,543,355	(158,522)	3,384,833

54 Comparative amounts (continued)
54.2 Reclassifications (continued)

	1 January 2011		
	As previously reported	Reclassification	As restated
	AED'000	AED'000	AED'000
Consolidated financial position			
Assets:			
Islamic financing and investing assets, net	57,171,067	(62,544)	57,108,523
Investments in Islamic sukuk	8,200,476	68,496	8,268,972
Receivables and other assets	2,296,873	(5,952)	2,290,921
Liabilities:			
Customers' deposits	63,447,070	237,310	63,684,380
Payables and other liabilities	3,679,923	(237,310)	3,442,613

These reclassifications have no impact on the total assets, liabilities and equity as at 31 December 2011 and 2010; and on the profit reported for the years ended 31 December 2011 and 2010. The consolidated financial position at 1 January 2011 is, therefore, not included in these consolidated financial statements.

55 Subsequent events

The Board of Directors of the Bank has announced its intention to acquire 100% of Tamweel PJSC's shares by offering DIB shares in exchange for Tamweel shares to the non-controlling shareholders. It is the intention of the Bank to delist Tamweel shares from Dubai Financial Market upon completion of acquisition. The acquisition is subject to the approval of the shareholders, Tamweel's shareholders and regulatory authorities including the Ministry of Economy, the Securities and Commodities Authority of the U.A.E., the U.A.E. Central Bank, and Dubai Financial Market.

56 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue at 4 February 2013.