Dar Al-Maal Al-Islami Trust

Annual Report 2011

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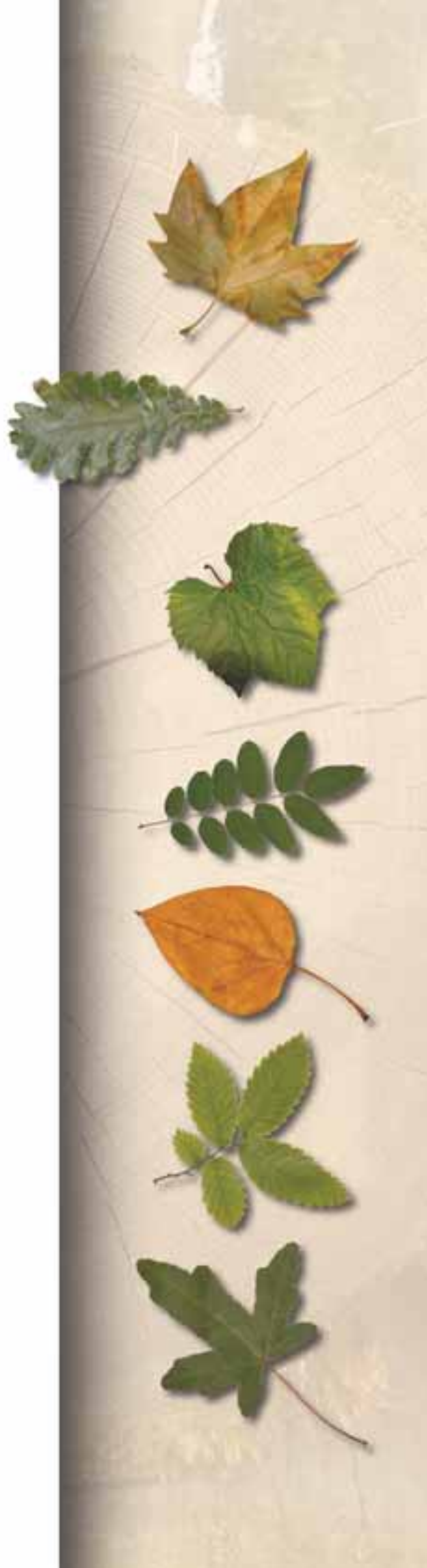


Board of Supervisors

Mohamed Al Faisal Al Saud,
Chairman

Abdelaziz Abdallah Alfadda

Mohamed A. Abdelkarim El Kheriji

Ebrahim Khalifa Al Khalifa

Amr Mohamed Al Faisal Al Saud

Khalid Omar Abdel Rahman Azzam

Ibrahim El Tayeb Elrayah

Mohammed Abdullah Abdulaziz Alankari

Faisal Islamic Bank-Egypt
(Represented by Abdelhameed Abou Moussa)

Religious Board

Nasr Farid Mohamed Wasel,
Chairman

Halil Gonenc

Osama Mohamed Ali

Dar Al-Maal Al-Islami Trust

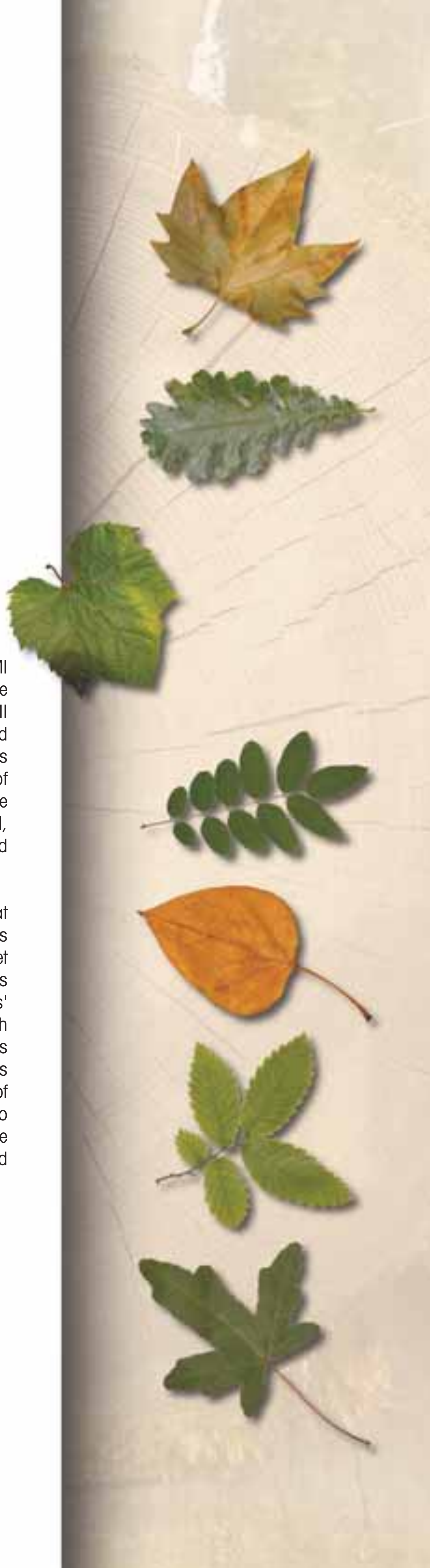
Dar Al-Maal Al-Islami Trust (DMI) was founded in 1981. It has an extensive network stretching over four continents, with well integrated regional subsidiaries enabling it to respond to local business needs and conditions. Based on this geographic structure, the DMI Group and associates act as a financial bridge between the world's leading financial centres and Islamic countries.

The Group comprises three main business sectors: Islamic banking, Islamic investment and Islamic insurance.

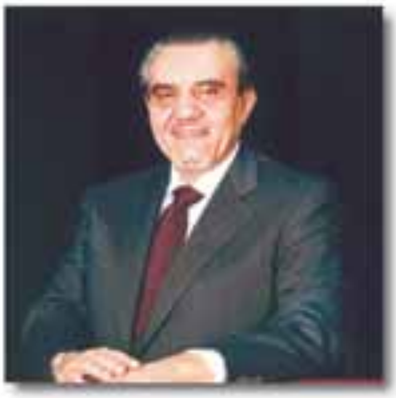
Islamic banking is exercised in different forms: commercial and retail banking in the Gulf region and other parts of the world; fund management and financial services in Switzerland and Jersey. Islamic investment companies are located in Bahrain, Egypt and Pakistan. There are also associated Islamic insurance companies based in Bahrain and Luxembourg, providing services to the Islamic communities in the Middle East and Europe.

The Board of Supervisors of DMI Trust directs and oversees the business of the Group. DMI Administrative Services S.A., located in Geneva, Switzerland, provides assistance to the Board of Supervisors, in particular in the areas of legal and financial control, audit and risk management and information technology.

DMI Trust is an institution that creates, maintains and promotes Islamic financial institutions. Asset management is one of the Group's core business activities. Clients' funds are invested prudently with the objective of optimal return as well as asset preservation. DMI has devised a comprehensive range of Islamic financial instruments to channel investors’ funds into viable Sharia compatible operations and investments.



Chairman's Message



Dear Participants,

May the peace, blessings and mercy of Allah be upon you.

On behalf of the Board of Supervisors, I am pleased to present the thirtieth annual report of Dar Al-Maal Al-Islami Trust for the financial year ended 31 December 2011.

The global banking and financial services industry commenced the year with an optimistic view for recovery from the extremely difficult years following the 2008 economic downturn. However, those hopes were soon dampened when world-wide turbulence continued in the financial markets brought on by the ever present debt and deficit crisis in Europe and North America and the socio-political unrest in the Middle East and North Africa. Several of the world's economies finding themselves in the depths of recession at the end of the year are continuing to search for solutions, albeit some signs of recovery are starting to emerge.

The DMI Group, impacted by the general malaise of the world economy, has focused this year on maximising synergies in the Group where possible, promoting cost effective operations and continuing to seek new business opportunities. These actions revealed positive results by stabilising the Group's liquidity in 2011 and we anticipate further improvements in these areas in 2012.

As a direct consequence of the financial crisis, the Group incurred a net loss in 2011 of $29.6 million compared to a net profit of $130.2 million for 2010. As a result the Trust capital has decreased to $461.5 million at 31 December 2011 from $524.4 million at the end of 2010, which reduced the value of each participation unit to $116.67.

Each year it is the Group's policy to allocate a percentage of the Group's profit to a fiduciary risk reserve to cover inherent fiduciary risks which might arise in the Group's managed funds. In view of the reported loss this year, the Board has resolved to recommend an additional appropriation of $20 million from reserves to the fiduciary reserve to reflect the increased risks. The amount of the fiduciary risk reserve of $187.5 million will be kept under review and will not be available for distribution.

For the past two years, Ithmaar Bank B.S.C. has recorded a steady improvement in most key performance indicators, confirming that the bold strategy taken in 2010 to convert the Bank to a licensed Islamic retail Bank, was the right one.

Despite the depressed and troubled global market conditions and the unprecedented local and regional political turmoil, Ithmaar Bank posted a total income of $451 million in 2011, an increase of 2.9% over the previous year. The balance sheet grew a modest 2.3% to reach $6.9 billion during the year, resulting from very impressive growth in customer deposits and financings, which increased by 23.5% ($1.48 billion) and 8.7% ($2.73 billion) respectively. The Bank finds such steady improvement encouraging however in no measure cause for complacency. In spite of the Bank's net loss of $62.9 million in 2011, the retail banking strategy for return on investment is geared much higher for the future. During the year the Bank has increased its branch and ATM networks, invested in personnel development and improved a number of core banking systems. Furthermore, while liquidity has improved significantly since the mid-year 2010 position, capital adequacy continues to be a key focus for the Bank.

Ithmaar Bank aims to maintain a necessary level of capital for its continuing growth. Presently however, a large part of its capital, in line with the current capital adequacy regulations, is allocated to support the investment portfolio, a legacy from the investment banking activities of Ithmaar Bank prior to its merger with Shamil Bank B.S.C. in 2010. Raising capital is therefore a key priority in the strategic outlook for the immediate future in order to expand the Islamic retail and corporate banking portfolios through the introduction of new products, whilst seeking to improve the ratio of financing to deposits. Corporate banking activities will be concentrated on the regional market, with particular emphasis on the SME sector in key markets such as Bahrain and Saudi Arabia.

Owing to its reputation for fair dealing through well-designed products and services as well as innovative advertising campaigns, Ithmaar Bank is encouraged by the number of new customers. The values and passion, which it shares with its clients have proved their worth and will continue to do so in the future.

Faysal Bank Limited, in which the Group owns an economic interest of 35% through its ownership in Ithmaar Bank, recorded a net profit in 2011 of PKR 1,309 million ($15.1 million) after tax. This is an increase over its 2010 results by PKR 119 million ($1.4 million). Despite a difficult political and economic environment, including a 5% devaluation of the Pakistani Rupee against the US dollar, FBL achieved a solid performance. The bank steered its operations successfully through the post-merger integration with Royal Bank of Scotland Pakistan (RBS) during the first year following acquisition. In 2011 the corporate and investment banking group expanded its business portfolio and improved the quality of assets, including the reversal/recovery of provisions for non-performing loans of PKR 1,800 million. FBL reached a total asset base of PKR 292 billion ($3.2 billion), a 9% increase over the prior year. The retail and Islamic banking groups rationalised the overlap of conventional branches with RBS through relocation or conversion to Islamic branches thus achieving the current network of 257 branches (including 45 Islamic branches); making FBL a major financial institution in Pakistan with its large geographical reach and client base. During 2012 the bank will focus on further developing the synergies of the two merged entities and continue to grow assets with a particular emphasis on commercial, consumer and agricultural segments. FBL is now ideally poised to realize its fullest potential in delivering outstanding results and value to its customers in the coming years.

Islamic Investment Company of the Gulf (Bahamas) Limited, which is wholly-owned by DMI, recorded a favourable net profit growth of 10% in 2011 as compared to the prior year, no small accomplishment considering the difficulties in the worldwide market. Thanks to the launch of a new management fund, fee income was higher than 2010, allowing IICG to more than offset a modest rise in administrative costs. It must be stated however, that difficulties remained in attracting new investors, as evidenced by the 2% volume decrease in funds under management at the end of the year. Generating new business remained difficult and few opportunities arose for new investments. In spite of these pressures, IICG remains committed to continue its focus on preserving its clients' investments by swiftly adapting to changing market conditions and provide innovative and interesting opportunities for new customers.

As mentioned last year IICG was granted an operating license by the Saudi Arabian Capital Market Authority for its newly established subsidiary, Gulf Investors Company for Asset Management (GIAM), a closed Saudi joint stock company in which it owns a 73.3% interest. We are pleased to now report that the company has become operational as of September 2011. It is expected that GIAM will enhance DMI's Group operations in the Kingdom of Saudi Arabia through fostering new business development and spearheading future growth opportunities. IICG welcomes the support GIAM will provide to its asset management and investment businesses and looks forward to a fruitful collaboration in the future.

Faisal Islamic Bank of Egypt, of which DMI owns 49% presented profitable results, despite a very challenging 2011, attaining a net profit of EGP 187 million ($31 million). FIBE not only showed continued growth in the Egyptian Islamic banking market but also improved its position in the Islamic banking world. Its total assets increased by 11% to EGP 35,070 million ($6 billion) at 31 December 2011 and total equity amounted to EGP 2,039 million ($338 million). Geographically reaching out to its customer base through 27 branch offices and 71 ATMs the Bank presently enjoys approximately one million account holders. Through its diversified product portfolio, offering customers local and foreign currencies at competitive rates, FIBE achieved a 12% increase in its savings accounts and certificates amounting to EGP 32 billion as well as 10% gain in net investment accounts amounting to EGP 31.0 billion. Internally the Bank has committed itself to improve and enhance the areas of corporate governance and risk management by restructuring its organisation and administrative tasks and procedures, with the aim of greater transparency in its operations within the bank and better identification and control of its risks. As one of DMI's oldest and more profitable investments, FIBE is confident that in the coming years it will achieve more growth and be able to further increase profits to the benefit of its shareholders.

On behalf of the Board of Supervisors, I would like to thank our participants for their support during the past year. I would also like to take the opportunity to thank the Religious Board for its counsel and guidance and the staff for their commitment and dedication.

Allah is the purveyor of success.

Mohamed Al Faisal Al Saud

Report of the Religious Board

1 January 2011 – 31 December 2011

The DMI Trust Religious Board held a meeting in Cairo, Egypt, on Wednesday 06 Jomad I, 1433H corresponding to 29 March 2012.

During the said meeting the Religious Board went through and reviewed the investment operations of DMI and its subsidiaries during the period under review.

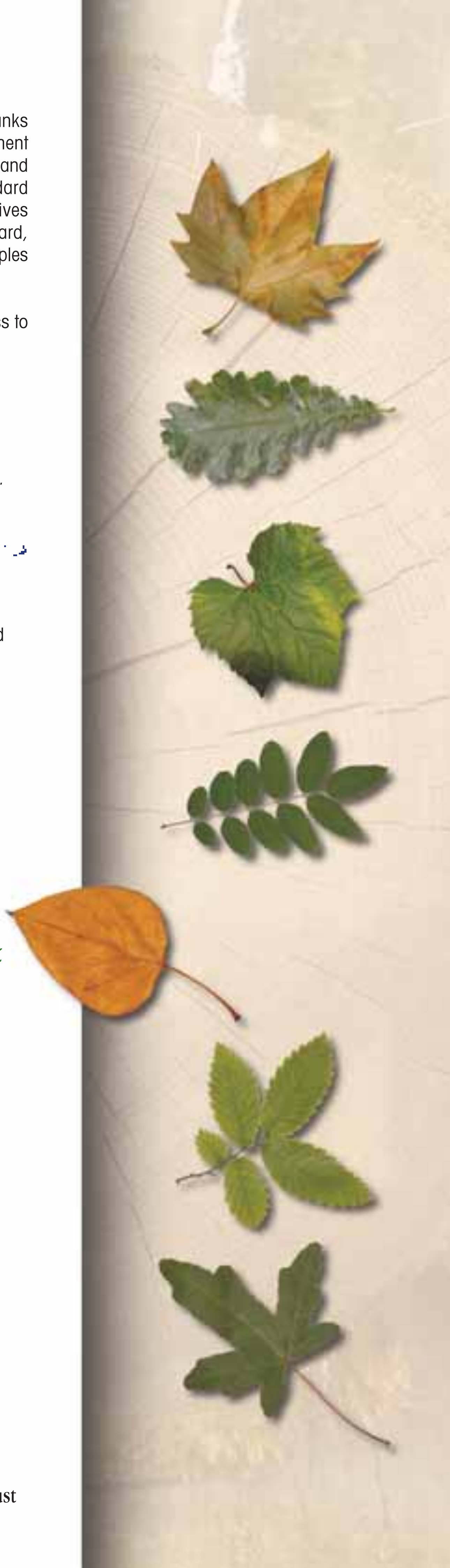
Furthermore the Religious Board reviewed the 2011 balance sheet and financial statements presented to it and after examining and discussing the same, the Religious Board considered that all DMI Group investment activities, projects and banking services undertaken during the year were in conformity with the principles of the glorious Sharia and in line with the standard contracts previously approved by the Religious Board.

The Board expressed its thanks to the DMI Group Management for the correct understanding and implementation of the standard contracts, rulings and directives issued by the Religious Board, complying thereby with principles of the Glorious Islamic Sharia.

The Board wishes further success to the DMI Group.

Allah is the purveyor of success.

Dr. Nasr Farid Mohamed Wasel
Chairman of the Religious Board



Millions of US dollars

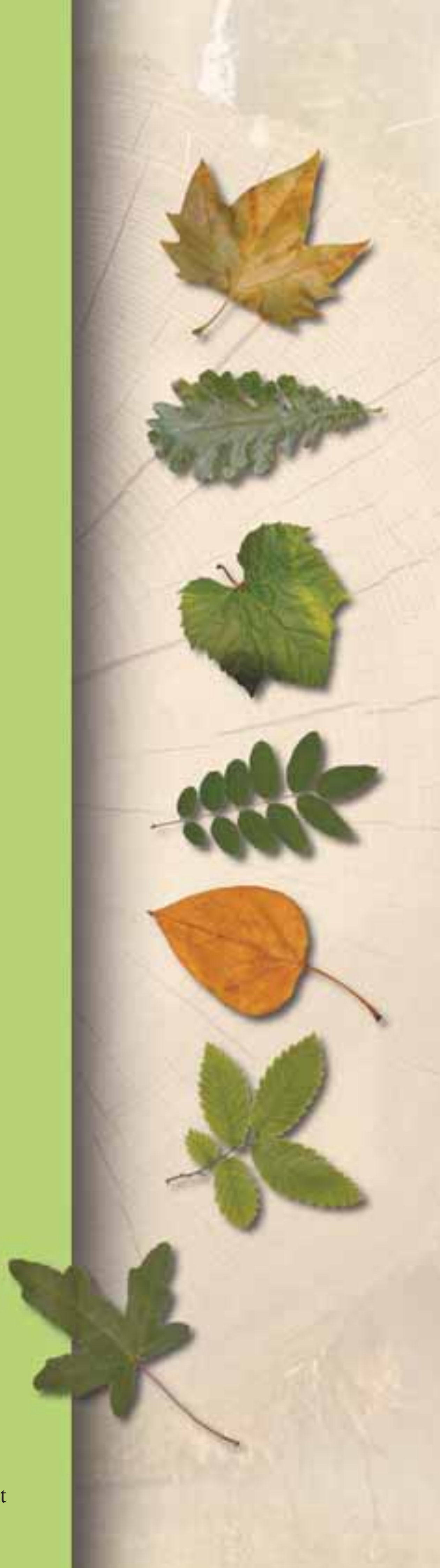
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net profit (loss)	12.5	14.4	18.9	28.7	52.1	50.7	12.3	(108.9)	130.2	(29.6)
Dividends	0.0	0.0	8.9	8.9	14.8	14.8	20.7	27.7	0.0	0.0
Trust capital	251	258	286	325	362	422	454	335	524	462
Return on average capital	5.1%	5.7%	7.0%	9.4%	15.2%	12.9%	2.8%	(27.6)%	29.9%	(6.0)%
Funds under management	3,723	3,759	4,204	4,762	1,856	1,906	2,296	2,508	8,589	8,098
Average number of employees	929	1,095	1,294	1,475	896	232	232	214	2,845	4,726*
Book value per unit	$84.65	$87.12	$96.86	$109.83	$122.41	$142.88	$114.85	$84.59	$132.57	$116.67

*The number of employees increased due to the acquisition of Royal Bank of Scotland (Pakistan) by Faysal Bank Limited, one of the Group's subsidiaries.

Ten-year Financial Summary

Dar Al-Maal Al-Islami Trust
2011 Annual Report

1 January 2011 – 31 December 2011



Consolidated Financial Statements

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF THE AUDITOR

To the Bearers and Owners of Equity Participations of Dar Al-Maal Al-Islami Trust

Report of the auditor on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Dar Al-Maal Al-Islami Trust and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of change in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, 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. Except as discussed below, 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 about 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 Group'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 Group'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 financial statements.

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

Basis for Qualified Opinion

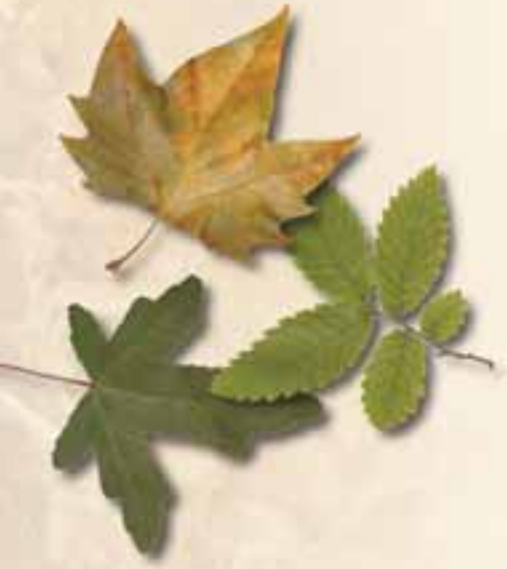
As indicated in note 14 to the consolidated financial statements, on accounting for its acquisition of a controlling stake in Ithmaar Bank B.S.C. ("Ithmaar") during the year 2010, management determined the fair value of the Group's previously held interest on the basis of an independent valuation which used an average of a peer group market analysis of similar banks listed on the Bahrain stock exchange and a discounted cash flow, adjusted for an estimated control premium. This methodology was accepted by management on the basis that it does not consider that an active market existed for the shares of Ithmaar and therefore the quoted market price was ignored. In our opinion, this valuation methodology was not in accordance with IFRS which stipulates that the most recent transaction prices should be taken into consideration as an input in the valuation model, unless it can be demonstrated that these transactions related to distressed sales. Had the quoted market price been used as an input into what we believe is an acceptable valuation methodology that market participants would consider in valuing the Group's previously held in interest in Ithmaar, this would have resulted in a valuation of US$ 483.6 million rather than US$ 587.1 million, and led to a decrease in the consolidated retained earnings for the year ended 31 December 2011 and to a decrease in the consolidated net profit for the year ended 31 December 2010 in the amount of US$ 103.5 million and a corresponding decrease in goodwill and non-controlling interests in the amounts of US$ 111.6 million and US$ 8.1 million respectively for both years.

In addition, as indicated in note 3 to the consolidated financial statements, management determined the value in use of Islamic Investment Company of the Gulf (Bahamas) Limited exceeded its carrying value as at 31 December 2011 and as such no impairment has been recognised on the related goodwill and intangible balances of US$ 32.2 million and US$ 23.2 million, respectively. In our opinion, the attached financial statements have not properly disclosed nor considered the significant uncertainty surrounding the valuation of the entity as a result of the performance of the underlying funds under management. As such, there is a significant risk that the goodwill and intangibles of a combined amount of US$ 55.4 million might be impaired.

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for qualified opinion paragraph above, the consolidated financial statements present fairly, in all material aspects, the financial position of the Group as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers SA



Alex Astolfi

Eric Maglieri

Geneva, 14 June 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

(Thousands of US dollars except participation units)

	Notes	2011	2010
Assets			
Cash and cash equivalents	5	785,042	767,962
Restricted cash held in escrow	5	-	24,433
Investments with Islamic institutions		120,514	146,602
Trading securities	6	64,555	41,343
Investments in financings	7	1,989,263	1,943,313
Investment securities	10	1,202,791	1,218,983
Accounts receivable	12	182,303	193,829
Current tax receivable	19	12,987	14,476
Investment property	13	393,094	392,820
Investments in associates	14	884,886	916,675
Property, plant and equipment	15	134,937	149,718
Intangible assets	16	584,845	604,680
Non-current assets held for sale	17	23,146	2,104
Deferred tax assets	19	60,911	53,401
Total assets		**6,439,274**	**6,470,339**
Liabilities			
Accounts payable	18	773,330	690,011
Current tax payable	19	903	6,602
Massaref accounts	20	4,589,812	4,603,486
Provisions	21	73,000	78,000
Non-current liabilities held for sale	17	3	21
Deferred tax liabilities	19	4,892	4,915
Total liabilities		**5,441,940**	**5,383,035**
Equity			
Trust capital attributable to equity participants			
Capital	41	390,316	390,316
Reserves		71,196	134,069
Total trust capital		**461,512**	**524,385**
Non-controlling interests	32	535,822	562,919
Total equity		**997,334**	**1,087,304**
Total equity and liabilities		**6,439,274**	**6,470,339**
Number of trust capital participation units		3,955,606	3,955,606
Book value per unit		$116.67	$132.57

The notes on pages 18 to 83 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER

(Thousands of US dollars)

	Notes	2011	2010
Continuing operations			
Income			
Fund management and services	33	26,967	23,476
Income from investments with Islamic institutions		11,997	9,131
Net trading income	23	24,406	8,357
Income from investments in financings	24	253,215	124,415
Fee and commission income	25	50,870	35,306
Gains/(losses) from investment securities	10	69,081	(59,165)
Dividend income	26	9,705	51,611
Other income	27	3,636	33,749
		449,877	226,880
Distribution to Massaref account holders		(296,727)	(178,183)
Operating income		153,150	48,697
Expenses			
Staff costs	28	(107,950)	(91,283)
General and administrative expenses	29	(90,701)	(81,405)
Depreciation and amortisation	15,16	(47,726)	(55,766)
Exchange gain		863	833
Provisions	21	18,467	(112,998)
Total expenses		(227,047)	(340,619)
Operating (loss)		(73,897)	(291,922)
Share of profit of associated companies	14	25,776	360,716
(Loss)/profit before income taxes		(48,121)	68,794
Taxes	31	(170)	8,600
(Loss)/gain after income taxes from continuing operations		**(48,291)**	**77,394**
(Loss)/profit after income taxes		**(48,291)**	**77,394**
Attributable to:			
Equity participants		(29,582)	130,157
Non-controlling interests	32	(18,709)	(52,763)
		(48,291)	**77,394**

The notes on pages 18 to 83 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER

(Thousands of US dollars)

	2011		2010	
	Equity holders	Non-controlling interests	Equity holders	Non-controlling interests
(Loss)/profit after income taxes	**(29,582)**	**(18,709)**	**130,157**	**(52,763)**
Movements in reserves due to conversion of an associate to a subsidiary	-	-	40,263	612,007
Movements in reserves due to change in ownership of a subsidiary	-	(2,203)	-	-
Movements in reserves due to acquisition of a subsidiary	(356)	8,589	(1,009)	(6,153)
Movements in fair value reserves of associated companies	(19,054)	(3,849)	20,543	(3,853)
Movements in currency translation of associated companies	(6,577)	-	(9,660)	-
Movements in other reserves of associated companies	-	-	(194)	-
Movements in currency translation due to disposal of a subsidiary	-	-	2,016	1,654
Movement in fair value of available-for-sale investments	(2,757)	(3,688)	401	(2,085)
Movements in fair value reserves due to disposal of available-for-sale investments in a subsidiary	(651)	(1,373)	316	890
Transfer to income statement due to impairment of available-for-sale investments	589	1,099	2,572	5,432
Movements in deferred tax of available-for-sale investments	697	1,299	(1,090)	(2,062)
Foreign currency translation differences for foreign entities	(5,182)	(8,262)	5,482	9,852
Other comprehensive income	(33,291)	(8,388)	59,640	615,682
Continued operations	(62,873)	(27,097)	189,797	562,919
Total comprehensive income/(loss)	**(62,873)**	**(27,097)**	**189,797**	**562,919**

The notes on pages 18 to 83 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER

(Thousands of US dollars)

		Attributable to equity participants							
	Note	Paid in capital	Fiduciary reserve	Fair value reserve	Currency translation	Other reserves	Total reserves	Non-controlling interests	Total equity
At 1 January 2010		390,316	42,453	1,928	(38,596)	(61,513)	(55,728)	-	334,588
Total comprehensive income/(loss)		-	-	42,198	55,993	91,606	189,797	562,919	752,716
Dividend declared		-	-	-	-	-	-	-	-
Allocation to fiduciary reserves	41	-	125,000	-	-	(125,000)	-	-	-
At 31 December 2010		390,316	167,453	44,126	17,397	(94,907)	134,069	562,919	1,087,304
Total comprehensive income/(loss)		-	-	(21,175)	(11,445)	(30,253)	(62,873)	(27,097)	(89,970)
Dividend declared		-	-	-	-	-	-	-	-
Allocation to fiduciary reserves	41	-	20,000	-	-	(20,000)	-	-	-
At 31 December 2011		390,316	187,453	22,951	5,952	(145,160)	71,196	535,822	997,334

The notes on pages 18 to 83 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER

(Thousands of US dollars)

	Notes	2011	2010
Cash flows from operating activities			
(Loss)/profit before taxes and non-controlling interests		(48,121)	68,794
Adjustments for:			
Depreciation and amortisation	15,16	47,726	55,766
Fair value adjustments on trading securities		(6,751)	(7,265)
Fair value adjustment on investments in financings	24	5,878	18,035
Loss/(gain) on purchase/sale of subsidiary		43	(38,929)
(Income) from associated companies	14	(25,776)	(360,716)
Changes in fair value of investment properties	13	4,513	12,314
Provisions for impairment	9,10,15,16,21	(4,911)	197,498
Operating loss before changes in operating assets and liabilities		(27,399)	(54,503)
Net decrease/(increase) in investments with Islamic institutions		26,088	(114,634)
Net (increase)/decrease of trading securities		(23,780)	5,345
Net (increase)/decrease in investments in financings		(49,755)	512,516
Net (increase) of investment securities	10	(45,378)	(117,114)
Net decrease in accounts receivable		3,852	53,201
Net increase in accounts payable, excluding taxes		91,467	152,016
Net (decrease) in Massaref accounts		(15,748)	(115,828)
Taxes paid		(13,663)	(18,936)
Release of restricted cash		24,433	-
Net cash (used in)/provided by operating activities		(29,883)	302,063

The notes on pages 18 to 83 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER

(Thousands of US dollars)

	Notes	2011	2010
Cash flows from investing activities			
Purchase of investment property	13	(9,942)	(16,415)
Sale of investment property	13	7,026	27,054
Investments in associated companies	14	-	(8,000)
Dividends from associated companies	14	26,090	10,162
Purchase of property, plant and equipment and intangibles	15,16	(37,287)	(10,569)
Sale of property, plant and equipment and intangibles	15,16	17,784	3,243
Cash inflow on sale of a subsidiary		-	90,430
Cash outflow on purchase of a subsidiary		-	(58,272)
Cash inflow on conversion of an associate to a subsidiary	42	-	487,334
Cash outflow on conversion of an associate to a subsidiary		-	(100,000)
Net cash provided by investing activities		3,671	424,967
Cash flows from financing activities			
Dividends paid		(793)	(2,267)
Net purchase of treasury shares		(666)	(1,337)
Cash inflow/(outflow) on acquisition of non-controlling interests		6,697	(5,829)
Net cash provided by/(used in) financing activities		5,238	(9,433)
Foreign currency translation adjustments		38,054	11,403
Net increase in cash and cash equivalents		17,080	729,000
Cash and cash equivalents at beginning of year		767,962	38,962
Cash and cash equivalents at end of year		**785,042**	**767,962**

The notes on pages 18 to 83 form an integral part of these consolidated financial statements.

1. Formation and activities

Dar Al-Maal Al-Islami Trust (DMI) was formed by indenture under the laws of the Commonwealth of The Bahamas for the purpose of conducting business affairs in conformity with Islamic law, principles and traditions. DMI subsidiaries and associates offer a wide range of Islamic financial services including investment, commercial and private banking, private equity, public and private issue of securities, mergers and acquisitions advice, takaful, equipment leasing real estate development and modarabas which are similar to investment funds. The modarabas, being separate entities, do not have their funds consolidated in the annexed financial statements. They are included in off-balance sheet accounts as disclosed in note 33.

2. Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of DMI and its subsidiaries (the Group) are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS interpretations. The consolidated financial statements are prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, trading securities, financial assets and financial liabilities held at fair value through profit or loss, derivative instruments and investment property.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

Impact of New Accounting Pronouncements: International Financial Reporting Standards

New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011.

There are no IFRS or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the Group.

Annual improvement 2010 to IAS 1, 'Presentation of financial statements' – Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Effective date 1 January 2011. Applied retrospectively.

Amendment to IAS 24 – 'Related party disclosures' (revised 2009) – Amends the definition of a related party and modifies certain related-party disclosure requirement for government-related entities. Effective date 1 January 2011.

Annual improvement 2010 to IAS 27, 'Consolidated and separate financial statements' – Clarifies that the consequential amendments from IAS 27 made to IAS 21, 'The effect of changes in foreign exchange rates', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier. Applicable to annual periods beginning on or after 1 July 2010. Applied retrospectively.

Amendment to IAS 32, 'Financial instruments: Presentation' – Classification of rights issues' Allows rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Effective date 1 February 2010.

Annual improvement 2010 to IFRS 3 'Business combinations', (a) Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS: Clarifies that the amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 32 'Financial instruments: Presentation' and IAS 39, 'Financial instruments: Recognition and measurement', that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). Applicable to annual periods beginning on or after 1 July 2010. Applied retrospectively.

(b) Measurement of non-controlling interests: The choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS. Applicable to annual periods beginning on or after 1 July 2010. Applied prospectively from the date the entity applies IFRS 3.

(c) Un-replaced and voluntarily replaced share-based payment awards: The application guidance in IFRS 3 applies to all share-based payment transactions that are part of a business combination, including un-replaced and voluntarily replaced share-based payment awards. Applicable to annual periods beginning on or after 1 July 2010. Applied prospectively.

Annual improvement 2010 to IFRS 7, 'Financial instruments' – Emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. Effective date 1 January 2011. Applied retrospectively.

Amendment to IFRIC 14, 'IAS19 – The limit on defined benefit assets, minimum funding requirements and their interaction' – Removes unintended consequences arising from the treatment of pre-payments where there is a minimum funding requirement. Results in pre-payments of contributions in certain circumstances being recognised as an asset rather than an expense. Effective date 1 January 2011.

IFRIC 19 – 'Extinguishing financial liabilities with equity instruments' – Clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. Effective date 1 July 2010.

New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2011 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

Annual improvement 2010 to IAS 34, 'Interim financial reporting' – Provide guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around:

The circumstances likely to affect fair values of financial instruments and their classification;

- Transfers of financial instruments between different levels of the fair value hierarchy;
- Changes in classification of financial assets; and
- Changes in contingent liabilities and assets.

Effective date 1 January 2011. Applied retrospectively.

Annual improvement 2010 to IFRIC 13, 'Customer loyalty programmes' – The meaning of 'fair value' is clarified in the context of measuring award credits under customer loyalty programmes. Effective date 1 January 2011.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted.

There are no IFRS or IFRIC interpretations that were issued but not effective for the financial year beginning 1 January 2011 and not early adopted that would be expected to have a material impact on the Group, unless otherwise mentioned below.

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income – The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in the 'other comprehensive income'. Effective date 1 July 2012.

Amendment to IAS 12, 'Income taxes' on deferred tax – IAS 12, 'Income taxes' currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes – recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. Effective date 1 January 2012.

Amendment to IAS 19, 'Employee benefits' – These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. Effective date 1 January 2013. The impact on the 2013 Group accounts is estimated to increase the pension liability through equity by the amount of unrecognised actuarial losses which amounted to $6.5 million at 31 December 2011.

IAS 27 (revised 2011), 'Separate financial statements' – This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. Effective date 1 January 2013. IAS 28 (revised 2011), 'Associates and joint ventures' – This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. Effective date 1 January 2013.

IAS 32 (amended) and IFRS 7 (amended), "Financial instruments" – The amendments clarify the requirements for offsetting financial instruments and implement new disclosures to facilitate the comparison between IFRS and US GAAP.

Amendment to IFRS 1, 'Severe hyperinflation and removal of fixed dates for first-time adopters – The amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to sever hyperinflation. Effective date 1 July 2011.

Amendment to IFRS 7, 'Financial instruments: Disclosures' on derecognition – This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. Effective date 1 July 2011.

IFRS 9, 'Financial instruments' – addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group has yet to assess IFRS 9's full impact and intends to adopt IFRS9 no later than the accounting period beginning on or after 1 January 2015.

IFRS 10, 'Consolidated financial statements' – The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity that controls one or more entities to present consolidated financial statements. Defines the principle of control, and establishes controls as the basis for consolidation. Sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. Sets out the accounting requirements for the preparation of consolidated financial statements. Effective date 1 January 2013.

IFRS 11, 'Joint arrangements' – This standard is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. Effective date 1 January 2013.

IFRS 12, 'Disclosures of interest in other entities' – This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. Effective date 1 January 2013.

IFRS 13, 'Fair value measurement' - This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs and US GAAP. Effective date 1 January 2013.

Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of income.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Costs associated with the restructuring of a subsidiary as a part of the acquisition or subsequent to the acquisition are included in the consolidated statement of income upon the date of commitment.

(b) Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in the statement of comprehensive income.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset.

In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounts for associated companies have been restated to conform with Group accounting policies, if necessary, except as otherwise disclosed.

Where a subsidiary or an associated company is acquired and held exclusively with a view to its disposal within the next twelve months, the subsidiary or associated company is classified as an investment held for sale in the Group's consolidated financial statements.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in United States dollars, which is DMI's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income, except where hedge accounting is applied.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of their fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the consolidated statement of comprehensive income.

(c) Group companies

The results and financial position of all group entities (none of which has the currency of a hyper inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component in the statement of comprehensive income.

Exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to the statement of comprehensive income on consolidation. When a foreign operation is sold, such exchange differences are recognised in the consolidated statement of income as part of the gain or loss on sale.

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

Derivative financial instruments and hedging

Derivative financial instruments including foreign exchange contracts, equity options and equity futures are initially recognised in the consolidated statement of financial position at fair value and subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, discounted cash flow models, and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives held for trading are included in trading income.

On the date a derivative contract is entered into, the Group designates derivatives as either (a) a hedge of fair value of a recognised asset or liability (fair value hedge); or (b) a hedge of highly probable future cash flows attributable to a recognised asset or liability, a forecast transaction or a firm commitment (cash flow hedge). At present the Group does not hedge future cash flows. Hedge accounting is used for derivatives provided certain criteria are met.

The Group's criteria for a derivative instrument to be accounted for as a hedge include:

(a) Formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied; (b) the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and (c) the hedge is highly effective on an ongoing basis.

Changes in the fair value of the effective portions of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to hedged risk, are recorded in the consolidated statement of income, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

If the fair value hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying amount of a hedged financial instrument is amortised in the consolidated statement of income over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in the consolidated statement of income.

Income from investments with Islamic institutions and investments in financings

Income from investments with Islamic institutions and investments in financings, which are included in the IAS 39 category "Loans and Receivables", are both contractually determined and quantifiable at the commencement of the transaction, are accrued on the effective return method basis over the period of the transaction. Where income is not contractually determined or quantifiable, it is recognised when reasonably certain of realisation or when realised. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, income is thereafter recognised using the rate of return used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Fees and commissions are generally recognised as income when earned. Origination fees for financings which are probable of being drawn down, are deferred and recognised over the term of the financing as an adjustment to the effective yield. Structuring fees, commission and fees arising from negotiating or participating in the negotiation of an Islamic transaction for a third party, are recognised on completion of the underlying transaction.

Asset management fees related to investment funds are recognised over the period the service is provided and are recorded in fund management and services income when capable of being reliably measured.

Management advisory and technical service fees are recognised based on applicable service contracts usually on a time-apportioned basis and are recorded in other income.

Distribution to Massaref account holders

Massaref accounts are included in the IAS 39 category of "Other Financial Liabilities" which are measured at amortised cost and the resulting expense charged to the consolidated statement of income as a distribution to Massaref account holders represents the share of the Group's income from all sources which is due to customers of the Group under contractual arrangements in force.

Sale and repurchase agreements

Securities sold subject to a linked repurchase agreement (repos) are recognised in the consolidated statement of financial position and are measured in accordance with related accounting policies for trading or investment securities. The counterparty liability for amounts received under these agreements is included in customer investment accounts. The difference between the sale and repurchase value is accrued over the period of the contract and recorded as expense in the consolidated statement of income.

Securities purchased underagreement to resell (reverse repos) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included under investments in financings. The difference between the contracted price and the resale price is amortised over the period of the contract and is recognised as income in the consolidated statement of income.

Obligations for the return of securities or for forward sales, which are a part of the repurchase agreements, are recognised as commitments as disclosed in note 36.

Financial Assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. The classification of investments is determined at initial recognition. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss (refer to details below). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all risks and rewards of ownership.

(a) Financial assets at fair value through profit or loss

This category includes financial assets held for trading, including trading securities, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless qualifying for hedge accounting.

Financial assets at fair value through profit and loss are initially recognised at fair value (which excludes transaction costs) and subsequently carried at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in net trading income in the period in which they arise. Dividends declared are included in dividend income.

All purchases and sales of financial assets held for trading and at fair value through profit and loss that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date that the Group commits to purchase or sell the asset.

(b) Loans and receivables

Loans and receivables, which include investments in financings, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than: (a) those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. In general, they arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable and also includes purchased loans and receivables that are not quoted in an active market. Loans and receivables are carried at amortised cost using the effective yield method. All loans are recognised when cash is advanced to the customer.

(c) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and there is the intent and the ability to hold them to maturity. If more than an insignificant amount of held-to-maturity assets is sold, the entire category will be considered tainted and reclassified as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

(d) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in exchange rates, equity prices or other market rates. All regular way purchases and sales of investment securities are recognised at trade date, which is the date that the entity commits to purchase or sell the asset.

Available-for-sale investments are initially recognised at fair value (which includes transaction costs) and subsequently carried at fair value. The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active or the asset is an unlisted security, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale which are not part of a hedging relationship are recognised in comprehensive income. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the consolidated statement of income as gains or losses from investment securities. Dividends declared are included in dividend income.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit and loss; translation differences on non monetary securities are recognised in comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in comprehensive income.

Impairment of Financial Assets

(a) Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment include:

i) Delinquency in contractual payments of principal or return;
ii) Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
iii) Breach of loan covenants or conditions;
iv) Initiation of bankruptcy proceedings;
v) Deterioration of the borrower's competitive position;
vi) Deterioration in the value of collateral; and
vii) Downgrading below investment grade level.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If a loan or held-to-maturity investment has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e, on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income.

In the case of Islamic financings to customers in countries where there is an increased risk of difficulties in servicing external debt, an assessment of the political and economic situation is made and additional country risk provisions may be established.

(b) Assets classified as available-for-sale

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale equity financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of income.

(c) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Investments with Islamic Institutions

Investments with Islamic institutions comprises mainly short term deposits in the form of parallel purchase and sale of currencies and commodities (PPSC), which are spot purchases of internationally traded currencies and commodities and a corresponding forward sale of the same. For the purpose of accounting, these are treated as term deposits and the return is recorded as income from investments with Islamic institutions in the statement of income.

Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill on subsidiaries is tested annually for impairment and carried at cost less accumulated impairment losses. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is an asset's fair value less costs to sell. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(b) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years).

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight line method over their useful lives.

(c) Other acquired intangible assets

Other acquired intangible assets determined to have finite lives, such as core deposits and customer relationships, are amortised on a straight line basis over their estimated useful lives. The original carrying amount of core deposits and customer relationships has been determined by independent appraisers, based on the interest differential on the expected deposit duration method.

Investment Property

Investment property principally comprises office buildings which are held to earn rental income or for long-term capital appreciation or both. Investment property is treated as a long-term investment and is carried at fair value, representing open market value determined annually by reference either to external valuers or to other independent valuation sources. Changes in fair values are recorded in the consolidated statement of income and are included in other income. The Group does not classify operating leases as investment property.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at historical cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Land is not depreciated. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life as follows:

- Buildings: 50 years
- Leasehold improvements: over the period of the lease
- Furniture, equipment and motor vehicles: 3-10 years
- Aircraft: 25 years

Depreciation is calculated separately for each significant part of an asset category. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each statement of financial position date.

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

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amounts. These are included as other operating income or expenses in the consolidated statement of income.

Leases

Total payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

When a Group company is the lessee of property, plant and equipment and the Group has substantially all the risks and rewards of ownership, they are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in payables. The profit element of the finance cost is charged to the consolidated statement of income over the lease period. The asset acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

When a Group company is the lessor and assets are held subject to a finance lease, the value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the actuarial method.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the statement of financial position date.

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the statement of financial position date.

Non-current-assets held for sale

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. A non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups). Its sale must be planned and committed and an active programme initiated to locate a buyer and complete the plan within one year. The asset (or disposal group) must be actively marketed for a price that is reasonable in relation to its current fair value.

A non-current asset held for sale is carried at the lower of its carrying amount and the fair value less costs to sell. Impairment losses are recognised through the consolidated statement of income for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. Subsequent gains in fair value less costs to sell are recognised to the extent they do not exceed the cumulative impairment losses previously recorded. A non-current asset is not depreciated while classified as held for sale or while part of a disposal group held for sale.

The Group separately classifies the material non-current assets held for sale (or disposal group) in the consolidated statement of financial position. Furthermore, all major classes of assets and liabilities are disclosed. Any cumulative income or expense is disclosed as a separate item within equity. Prior period amounts are not re-presented to reflect the classification of the assets (or disposal group) in the current period.

Non-current assets, which are to be abandoned, are not classified as held for sale and are reclassified as discontinued operations, to the extent they meet the requirements of discontinued operations in the paragraph which follows.

If a non-current asset (or disposal group) ceases to be classified as held for sale or as discontinued operations, the results of operations are reclassified and included in the consolidated statement of income from continuing operations for all periods presented.

Discontinued Operations

A discontinued operation is a component (cash generating unit) of an entity that either has been disposed of or is classified as held for sale and a) represents a major business line or geographical area of operations; b) is part of a single coordinated plan to dispose of a separate major business line or geographical area of operations; or c) is a subsidiary acquired exclusively with a view to resell.

The Group presents after tax results from discontinued operations as a single separate component of the statement of income. Revenues, expenses, taxes, gains or losses on the measurement to fair value less costs to sell and cash flows are additionally disclosed. Prior periods are reclassified in order to present all operations that have been discontinued by the statement of financial position date of the latest period presented.

Due to banks and financial institutions

Due to banks and financial institutions are initially recorded at fair value and subsequently measure at amortised cost using the effective return method.

Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective return method.

Retirement benefit plans

The Group operates a number of defined benefit and defined contribution pension plans throughout the world, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking into account the recommendations of independent qualified actuaries.

For defined benefit plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated statement of income so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a valuation of the plans every year. The pension obligation is measured as the present value of the estimated future cash outflows using high standard corporate bond rates which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation, are charged or credited to income over the employees' expected average remaining working lives.

The Group's contributions to defined contribution pension plans are charged in the consolidated statement of income in the year to which they relate.

Taxation

Taxes are provided and charged in the consolidated statement of income on the basis of the estimated tax expense payable currently and in future years, arising in respect of the results of current operations.

The current income tax charge is calculated on the basis of tax laws enacted or substantially enacted at the date of the statement of financial position in the countries where the Group's subsidiaries and associates operate.

Deferred income taxes

Deferred income tax is provided, using the comprehensive liability method, for all temporary differences arising between the tax bases of assets and liabilities and their respective carrying values for financial reporting purposes. The amount of deferred taxes on these differences is determined using the provisions of local tax laws, including rates, and is adjusted upon enactment of changes in these laws. Provision is made for potential taxes which could arise on the remittance of retained overseas earnings where there is a current intention to remit such earnings.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilised.

Deferred tax related to fair value remeasurement of investments available-for-sale which is charged or credited directly to Trust capital, is also credited or charged directly to Trust capital and is subsequently recognised in the consolidated statement of income together with the deferred gain or loss.

Deferred tax related to fair value remeasurement of investment property, which is charged or credited to the consolidated statement of income, is also charged or credited to the consolidated statement of income.

Trust capital and treasury stock

Dividends on participation units

Dividends on participation units are recognised in Trust capital in the period in which they are declared.

Treasury stock

Where DMI purchases its own capital or obtains rights to purchase its own capital, the consideration paid is shown as a deduction from Trust capital. Gains and losses on sales of own capital are charged or credited to the treasury stock account in Trust capital.

Fiduciary risk reserve

The fiduciary risk reserve is a component of Trust capital and is established by an appropriation of net results, other reserves or by a transfer from paid in capital, for the financial year to cover potential fiduciary risks which might arise and which are not subject to other specific provision, in the Group's capacity as fund manager. The fiduciary risk reserve is not distributable.

Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments, unless payment is probable.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with maturities of three months or less from the date of acquisition, including cash and non-restricted balances with central banks, loans and advances to banks, amounts due from other banks and short-term government securities.

Fiduciary activities

The Group through its asset management subsidiary provides fund management and advisory services to third parties which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.

Income arising from fund management and advisory services comprises the revenues earned from the management of the funds in the modarabas accrued on the basis of the terms and conditions of the related management agreements. Funds under management represent amounts invested by clients and placed with funds managed by the Group.

3. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of investments in financings

The Group reviews its investments in financings to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of income, judgements are made as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of a borrower, or national or local economic conditions that correlate with defaults on assets. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly.

Fair value and impairment of available-for-sale equity investments

The Group may from time to time hold investments in financial instruments that are not quoted in active markets. Fair values of such instruments are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by Group management.

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in

3. Critical accounting estimates and judgements in applying accounting policies (continued)

the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

On occasion the Group may hold investments whose fair value cannot be reliably measured. In those instances, full disclosure with a description of the investment, the carrying value and an explanation of why fair value cannot be measured reliably are included in the notes to the financial statements.

Fair value of investment properties

The Group may from time to time hold investment properties which are carried at fair value, representing open market value determined annually by reference either to external valuers or to other independent valuation sources.

Special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group does not consolidate SPE's that it does not control. As it can sometimes be difficult to determine whether the Group controls an SPE, it makes judgements about its exposure to the risks and rewards, as well as about its ability to govern operational and financial decisions for the SPE in question. In many instances, elements are present that considered in isolation indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In such cases, the SPE is consolidated.

Income taxes

The Group is subject to income taxes in some jurisdictions. Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

Impairment of associated companies

The Group assesses at each statement of financial position date whether there is objective evidence that its investments in associated companies are impaired. In general, an investment in an associated company is impaired and an impairment loss incurred when the carrying amount of the investment exceeds its recoverable amount. The recoverable amount is defined as the higher of its fair value less costs to sell and its value in use.

On assessing its investments for impairment at the year end, the Group has relied upon cash flow projections as approved by the board of the underlying associates that are based upon judgements and estimates related to future events which ultimately could have a significant impact on the recoverable amounts of these investments in the consolidated financial statements.

On the basis that the Group used a discounted cash flow model to arrive at a value in use which ultimately was higher than both the carrying amount and the fair value less cost to sell (based on the underlying quoted market price), no impairment charge was recorded in the consolidated financial statements. Had the assumptions utilised in the discounted cash flow model for future cash flows decreased by 10% this would

3. Critical accounting estimates and judgements in applying accounting policies (continued)

equate to the Group's share of the value in use in Faisal Islamic Bank of Egypt of $221.8 million. Had the assumptions utilised in the discounted cash flow model for the underlying discounting factor increased by 10.0% this would equate to the Group's share of the value in use in Faisal Islamic Bank of Egypt of $223.3 million. The carrying value in the consolidated statement of financial position as at 31 December 2011 for Faisal Islamic Bank of Egypt was $210.2 million, which is lower than the "value in use" amounts mentioned above.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on estimated future cash flows and comparisons with market multiples. These calculations require the use of estimates, which are subject to judgement. Changes in the underlying assumptions may impact the reported numbers.

During 2011 the Group used a sum-of-the-parts approach to arrive at a business value of Ithmaar Bank B.S.C. The valuation methodology for the separately identified CGU at Ithmaar Bank B.S.C. level based on the operational activities is the following:

- CGU Ex-Shamil Bank:
  value in use based on discounted cash flows
- CGU Faysal Bank Limited:
  value in use based on discounted cash flows
- CGU BBK:
  average of residual income and price to book value multiple
- Ithmaar Bank residual assets:
  investments measured at their carrying value adjusted for fair value changes.

In its assessment of Ithmaar Bank B.S.C. the value based on the sum-of-the parts approach exceeded its carrying value and as such no impairment charge was taken. The key assumptions used in this sum-of-the parts computation were the following:

- CGU Ex-Shamil Bank:
  long-term growth rate of 2%, discount rate of 14.85%
- CGU Faysal Bank Limited:
  long-term growth rate of 2%, discount rate of 25.84%
- CGU BBK:
  long-term growth rate of 4%, cost of the equity of 11.5%, control premium of 15%
- Ithmaar Bank residual assets:
  investments measured at their carrying value adjusted for fair value changes

A shift in either the growth or discount rates of 1% would also not have resulted in any impairment.

On the basis that the Group used a discounted cash flow model to arrive at a value in use of Islamic Investment Company of the Gulf (Bahamas) Limited which ultimately was higher than the carrying amount no impairment charge was recorded in the consolidated financial statements (2010: $35 million). Management's assessment of the value in use of Islamic Investment Company of the Gulf (Bahamas) Limited exceeds its carrying value, therefore any significant changes to assumptions used in management's assessment will not result in impairment.

Pension obligations

The assumptions the Group has to make in connection with the actuarial calculation of pension obligations an pension expenses affect the discount rate, the expected annual rate of compensation increase, the expected employee turnover rate, the expected average remaining working life, the expected annual adjustments to pensions and the expected annual return on plan assets. These assumptions are subject to review by the Group. A change in any of these key assumptions may have an impact on the projected benefit obligations, funding requirements and periodic pension cost.

(Thousands of US dollars)

4. Financial instruments

A. Strategy in using financial instruments

By its nature, the Group's activities are principally related to the use of financial instruments. The Group accepts investments from customers at varying rates of return and for various periods and seeks to earn above average profits by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and investing for longer periods at higher return potential whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its profit margins by obtaining above average margins, net of provisions, through transactions with its commercial and retail customers. Such exposures involve not just on-balance sheet Islamic financings but the Group also enters into Islamically acceptable guarantees and other commitments such as letters of credit and performance and other bonds.

The Group also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives to take advantage of short-term market movements in the equity and bond markets and in currency and profit rates. The individual subsidiary's boards place trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and profit rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

The Group utilises the following derivative instruments for both hedging and non-hedging purposes.

(i) Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions; (ii) equity futures are contractual obligations to receive or sell shares on a future date at a specified price established in an organised financial market; and (iii) equity options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of shares at a predetermined price. In consideration for the assumption of the risk, the seller receives a premium from the purchaser. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter).

The Group's debt-to-equity ratios for the given years were as follows:

	2011	2010
Total debt	1,861,224	1,942,978
Less: cash and cash equivalents	(785,042)	(792,395)
Net debt	1,076,182	1,150,583
Total equity	**461,512**	**524,385**
Debt-to-equity ratio	233%	219%

4. Financial instruments (continued)

B. Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial positions, are:

i) To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

ii) To maintain a strong capital base to support the development of its business;

DMI itself does not engage in banking business and is not therefore required to comply with any minimum capital adequacy requirements.

In order to maintain or adjust capital, the Group may adjust the amounts of dividends paid to equity participants, issue new equity or sell assets to reduce debt. The Group monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity as shown on the face of the consolidated financial statements.

C. Financial risk management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by individual entities within the Group under policies approved by their respective Boards of Directors. The Boards provide written principles for overall management, as well as written policies covering specific areas, such as market rate risk, credit risk and use of non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit, liquidity and market risk. Market risk includes currency risk, profit rate and other price risk.

D. Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit exposures arise principally in lending activities that lead to loans and advances (including accounts receivables). There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Credit risk management and control are carried out by credit risk management teams, which report to the Boards of Directors through risk management committees.

Credit risk measurement

The Group has well defined credit structures under which credit committees, comprising senior officers with required credit background, critically scrutinise and sanction financing. The Group's exposure to credit is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. To reduce the potential of risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions. Besides financial, industry and transaction analysis, the credit evaluation also includes risk rating systems which gauge risk rating of all customers.

4. Financial instruments (continued)

The significant concentration of the Group's credit risk is in Ithmaar Bank B.S.C. Ithmaar manages its credit risk arising from its banking book activities by implementing robust policies and procedures with respect to identification, measurement, mitigation, monitoring and controlling the risks. A centralised credit risk management system is in place where all significant exposures are independently reviewed by the Risk Management Department before approval.

The risk policies of Ithmaar set guidelines to limit concentration risk within the portfolio by country, industry, tenor and products. The risk policies also set the criteria for risk rating and credit exposures. The policies also outline the scoring techniques used in grading and classifying exposures. Ithmaar uses a robust management information system to monitor its exposures and concentrations by various dimensions. All credit exposures are monitored on a continuous basis.

Strategic investments including investment in real estate, are subject to at least an annual review. Investment securities are reviewed at shorter frequencies. Each investment exposure is evaluated individually for impairment assessed on its merits, strategy, and estimated cash flows considered recoverable.

Risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by industry sector and by country are approved by the boards of directors of Group entities.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures in relation to daily delivery risk limits are monitored on a daily basis, whereas other limits are monitored on a quarterly, semi annual or annual basis.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet payment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

(a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The principal collateral types for loans and advances are:

i) Mortgages over residential and commercial properties;

ii) Charges over business assets such as premises, inventory and accounts receivable;

iii) Charges and pledges over financial instruments such as debt securities and equities.

In order to minimise the credit loss the Group will seek immediate recovery or additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument.

(b) Derivatives

The Group maintains control limits on net open derivative positions (i.e. the difference between purchase and

4. Financial instruments (continued)

sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Group's market transactions on any single day.

(c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and by other collaterals that are obtained in the normal course of business and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, where these are not unconditionally cancellable. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment and provisioning policies

The internal rating systems referred to in "credit risk measurement" focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the date of the statement of financial position based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management purposes.

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at statement of financial position date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogeneous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgement and statistical techniques.

(Thousands of US dollars)

4. Financial instruments (continued)

Credit risk exposure relating to on-balance sheet assets are as follows:

	Maximum exposure	
	2011	**2010**
Investments with Islamic institutions	120,514	146,602
Trading securities	64,555	41,343
Investments in financings:		
Corporate financing	1,484,329	1,407,166
Bank and other financial institutions	-	26,771
Agricultural financing	58,288	61,157
Government/public financing	-	115,708
Trust financing	104,316	102,243
Consumer financing	322,289	207,926
Other financing	20,041	22,342
Investment securities	1,202,791	1,218,983
Accounts receivable (note 12)	182,303	193,829
Total financial assets	**3,559,426**	**3,544,070**
Credit risk exposure relating to off-balance sheet items are as follows:		
Financial acceptances, performance bonds, guarantees and irrevocable letters of credit	1,033,074	725,709
Financing commitments, undrawn facilities and other credit related liabilities	980,986	1,172,545
Total off-balance sheet	**2,014,060**	**1,898,254**
At 31 December	**5,573,486**	**5,442,324**
Fair value of collateral	**4,096,867**	**2,637,423**

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts.

Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

(Thousands of US dollars)

4. Financial instruments (continued)

Investments in financings and receivables past due but not impaired

Investments in financings and receivables less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amount of investments in financings by class and receivables that were past due but not impaired were as follows:

2011

	Investments in financings							
	Corporate financing	Banks and other Financial institutions	Agricultural financing	Consumer financing	Government/ Public financing	Other financing	Accounts receivable	Total
Past due up to 30 days	232,043	-	13,575	6,683	-	-	79	252,380
Past due from 31 to 90 days	93,394	-	825	4,445	-	-	5,038	103,702
Past due greater than 90 days	24,117	-	-	8,449	-	28	2,032	34,626
Total	349,554	-	14,400	19,577	-	28	7,149	390,708
Fair value collateral	474,319	-	71,870	25,389	-	-	-	571,578

2010

	Corporate financing	Banks and other Financial institutions	Agricultural financing	Consumer financing	Government/ Public financing	Other financing	Accounts receivable	Total
Past due up to 30 days	26,732	-	908	9,423	-	-	5,434	42,497
Past due from 31 to 90 days	73,819	10,008	1,523	28,223	93	-	1,016	114,682
Past due greater than 90 days	72,383	-	-	944	-	29	10,122	83,478
Total	172,934	10,008	2,431	38,590	93	29	16,572	240,657
Fair value collateral	199,717	8	2,379	48,896	93	-	-	251,093

The collateral comprises $571.6 million (2010: $242.9 million) relating to financings of $355.6 million (2010: $154.7 million) where the coverage of client exposure is 100% or greater; and $Nil million (2010: $8.2 million) relating to financings of $Nil million (2010: $21.3 million) where the coverage is less than 100%.

Upon initial recognition of investments in financings, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

E. Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in currency, equity, profit rate and other products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, credit spreads, foreign exchange rates and equity prices. The Group separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities, are monitored by individual entities within the Group. Regular reports are submitted to management.

(Thousands of US dollars)

4. Financial instruments (continued)

Trading portfolios include those positions arising from market-making transactions where the Group acts as principal with clients or with the market. Non-trading portfolios primarily arise from the management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Group's available-for-sale investments and held-to-maturity investments.

(a) Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The boards of directors of individual entities within the Group set limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Currency risk

Assuming that all other variables held constant, the impact of currency risk on the consolidated statement of income/equity based on reasonable shift is summarised below:

	USD/EUR	USD/BHD	USD/AED	USD/GBP
As at 31 December 2011				
Total currency exposure	(143,845)	(481,562)	(307,489)	(44,711)
Reasonable shift	0.9%	0.02%	0.01%	0.5%
Total effect on income/equity	**(1,311)**	**(83)**	**(17)**	**(221)**
As at 31 December 2010				
Total currency exposure	(243,257)	(439,106)	(301,890)	(36,763)
Reasonable shift	0.2 %	0.1 %	0.1 %	0.4%
Total effect on income/equity	**(431)**	**(326)**	**(386)**	**(149)**

The basis for calculation of the reasonable shift is arrived at by comparing the foreign exchange spot rate at 31 December as compared to the one year forward rate for the same period.

(b) Profit rate risk

Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market profit rates. Movement in the market profit rates may affect the earnings of the Group.

The profit rate exposure taken by the Group arises from investing in corporate, small-medium enterprises, consumer financing, investment banking and inter-banking activities where variation in market profit rates may affect the profitability of the Group. The risk is managed by the management of individual entities. The profit rate dynamics are reviewed at regular intervals and repricing of assets and liabilities are adjusted to ensure that the spread of the subsidiary remains at an acceptable level.

The financings and deposits of the Group are broadly linked to the market variable rates and thus get automatically repriced on a periodic basis based on profit rate scenarios.

(Thousands of US dollars)

4. Financial instruments (continued)

Profit rate risk

The table below summarises the Group's exposure to profit rate risks. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

As at 31 December 2011

	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Assets							
Cash and cash equivalents	374,535	7,648	-	-	-	402,859	785,042
Investments with Islamic institutions	35,123	-	85,195	179	-	17	120,514
Trading securities	-	-	3	-	-	64,552	64,555
Investments in financings	107,120	269,498	841,523	412,719	342,069	16,334	1,989,263
Investment securities	58,005	7,677	602,902	159,093	208,012	167,102	1,202,791
Other assets	-	-	-	-	-	177,621	177,621
Total financial assets	574,783	284,823	1,529,623	571,991	550,081	828,485	4,339,786
Liabilities							
Massaref accounts	1,932,719	409,014	1,254,596	160,987	16,883	815,613	4,589,812
Other liabilities	-	-	87,471	-	-	600,768	688,239
Total financial liabilities	1,932,719	409,014	1,342,067	160,987	16,883	1,416,381	5,278,051
Total repricing gap	(1,357,936)	(124,191)	187,556	411,004	533,198	(587,896)	(938,265)

As at 31 December 2010

	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Assets							
Cash and cash equivalents	426,727	7,648	-	-	-	358,020	792,395
Investments with Islamic institutions	111,037	23,000	12,066	179	-	320	146,602
Trading securities	-	-	3	-	-	-	3
Investments in financings	457,101	273,341	624,401	559,230	195	29,045	1,943,313
Investment securities	224,134	407,053	85,324	187,647	-	314,825	1,218,983
Accounts receivable	38,265	19,731	5,933	12,343	-	87,798	164,070
Total financial assets	1,257,264	730,773	727,727	759,399	195	790,008	4,265,366
Liabilities							
Massaref accounts	2,021,154	391,924	1,371,464	125,273	241	693,430	4,603,486
Accounts payable	3	-	-	-	-	504,710	504,713
Total financial liabilities	2,021,157	391,924	1,371,464	125,273	241	1,198,140	5,108,199
Total repricing gap	(763,893)	338,849	(643,737)	634,126	(46)	(408,132)	(842,833)

(Thousands of US dollars)

4. Financial instruments (continued)

Profit rate sensitivities

At 31 December 2011 if the US dollar market rates had been 34 (2010: 34) basis points higher/lower with all other variables held constant, post-tax profit for the year would have been $0.5 million (2010: $0.7 million) higher/lower, mainly as a result of lower/higher expense on US dollar denominated financings and borrowings.

At 31 December 2011 if the Euro market rates had been 47 (2010: 27) basis points higher/lower with all other variables held constant, post-tax profit for the year would have been $1.9 million (2010: $1.1 million) higher/lower, mainly as a result of lower/higher expense on Euro denominated borrowings.

At 31 December 2011 if the Pakistani rupee market rates had been 1 (2010: 18) basis points higher/lower with all other variables held constant, post-tax profit for the year would have been $0.1 million (2010: $1.7 million) higher/lower, mainly as a result of lower/higher expense on Pakistani rupee denominated financings and borrowings.

At 31 December 2011 if the Bahraini dinar market rates had been 24 (2010: 20) basis points higher/lower with all other variables held constant, post-tax profit for the year would have been $1.3 million (2010: $1.1 million) higher/lower, mainly as a result of lower/higher expense on Bahraini dinar denominated borrowings.

At 31 December 2011 if the United Arab Emirates dinar market rates had been 7 (2010: 157) basis points higher/lower with all other variables held constant, post-tax profit for the year would have been $0.2 million (2010: $5.0 million) higher/lower, mainly as a result of lower/higher expense on United Arab Emirates dinar denominated borrowings.

The sensitivity analysis above does not include the available-for-sale portfolio for which fair value adjustments impact the fair value reserve in the statement of comprehensive income.

As at 31 December 2011	USD	EURO	PKR	BHD	AED
Total profit rate exposure in the consolidated statement of financial position	146,214	393,940	973,819	543,034	319,337
Reasonable shift	0.34%	0.47%	0.01%	0.24%	0.07%
Total effect on income	497	1,852	92	1,276	224
As at 31 December 2010					
Total profit rate exposure in the consolidated statement of financial position	198,767	407,203	970,986	545,848	315,977
Reasonable shift	0.34%	0.27%	0.18%	0.20%	1.57%
Total effect on income	676	1,099	1,701	1,084	4,961

The basis for calculation of the reasonable shift is arrived at by comparing the interbank lending rate at the beginning and the end of the period.

4. Financial instruments (continued)

Price risk

Price risk is the risk that the fair values of the equities or the managed funds increase or decrease as a result of changes in the corresponding value of equity indices or the value of individual equity stocks held as available-for-sale.

The table below summarises the impact of increase/decrease of equity indices on the Group's post tax profit for the year and on other components of equity. The analysis is based on the assumptions that equity indices increased/decreased by 10% with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the indices.

	Impact on other components of equity	
	2011	2010
Pakistan stock exchange (+/-10%)	7,769	8,154

F. Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay investors and fulfil commitments to lend.

Liquidity risk management process

The Group's liquidity risk management process, as carried out within the Group and monitored by management in individual entities within the Group, includes:

i) Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in money markets to enable this to happen;

ii) Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

iii) Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and

iv) Managing the concentration and profile of debt maturities.

Monitoring and reporting of treasury and capital market maturities is done through monitoring of daily maturities. Similarly the overall liquidity maintenance is done through monthly maturity gap analysis at balance sheet level. Hence, monitoring and reporting takes the form of regular and periodic cash flow measurement and projections. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The Group also monitors unmatched medium-term assets.

(Thousands of US dollars)

4. Financial instruments (continued)

The table below presents the cash flows payable by the Group under financial liabilities by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected cash inflows.

As at 31 December 2011

	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Total
Liabilities						
Customer current accounts	962,789	-	-	-	-	962,789
Customer investment accounts	767,933	117,545	337,512	428,051	295,916	1,946,957
Due to banks and financial institutions	1,502,927	212,649	757,084	99,687	218,483	2,790,830
Investments from off-balance sheet funds	11,779	9,217	66,909	196,442	-	284,347
Accounts payable	674,148	1,260	36,454	7,993	53,475	773,330
Non-current liabilities held for sale	3	-	-	-	-	3
Total liabilities liquidity risk	3,919,579	340,671	1,197,959	732,173	567,874	6,758,256
Total assets (less discounting) liquidity risk	1,334,928	527,719	1,432,780	1,019,855	2,124,833	6,440,115

As at 31 December 2010

	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Total
Liabilities						
Customer current accounts	684,358	-	-	-	-	684,358
Customer investment accounts	1,087,583	194,029	589,744	93,319	48,800	2,013,475
Due to banks and financial institutions	1,082,650	132,772	473,434	19,223	16,875	1,724,954
Investments from off-balance sheet funds	19	1,273	30,015	194,386	1,537	227,230
Accounts payable	498,758	22,889	75,915	89,827	2,623	690,012
Non-current liabilities held for sale	-	-	-	-	21	21
Total liabilities liquidity risk	3,353,368	350,963	1,169,108	396,755	69,856	5,340,050
Total assets (less discounting) liquidity risk	1,705,709	807,790	668,675	1,077,591	2,211,415	6,471,180

(Thousands of US dollars)

4. Financial instruments (continued)

The table below presents the cash flows payable by the Group under off-balance sheet liabilities.

	No later than one year	One-five years	Over five years	Total
As at 31 December 2011				
Acceptances and endorsements	54,509	55,358	-	109,867
Guarantees and irrevocable letters of credit	451,414	27,408	12,353	491,175
Performance bid bonds	18,093	-	-	18,093
Other contingent liabilities	-	399,755	14,184	413,939
Undrawn facilities and other commitments to finance	7,186	693,228	36,402	736,816
Operating lease commitments	-	-	46	46
Open foreign currency positions	773,098	-	-	773,098
Repurchased and resale transactions	244,170	-	-	244,170
Total off-balance sheet liabilities	1,548,470	1,175,749	62,985	2,787,204
As at 31 December 2010				
Acceptances and endorsements	31,964	-	-	31,964
Guarantees and irrevocable letters of credit	497,206	68,257	1,257	566,720
Performance bid bonds	20,064	3,927	-	23,991
Other contingent liabilities	294	-	102,740	103,034
Undrawn facilities and other commitments to finance	1,006,306	-	36,402	1,042,708
Operating lease commitments	91	46	-	137
Open foreign currency positions	30,520	-	58,036	88,556
Repurchased and resale transactions	129,837	-	-	129,837
Total off-balance sheet liabilities	1,716,282	72,230	198,435	1,986,947

Assets held for managing liquidity risk

The Group holds a diversified portfolio of cash and high-quality high-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Group's assets held for managing liquidity risk comprise:

- Cash and balances with central banks;
- Certificates of deposit;
- Government bonds and other securities that are readily acceptable in repurchase agreements with central banks; and
- Secondary sources of liquidity in the form of highly liquid instruments in the Group's trading portfolios and investment securities available-for-sale.

(Thousands of US dollars)

4. Financial instruments (continued)

Derivative liabilities

The Group's derivatives that will be settled on a net basis include over-the-counter (OTC) currency options, currency futures, currency forwards and exchange traded currency options. The table below analyses the Group's derivative financial instruments that will be settled on a net basis into relevant maturity groupings based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 31 December 2011	Up to one month	One-three months	Three-twelve months	One-five years	Total
Derivatives held for trading:					
- Foreign exchange derivatives	-	14,594	17,854	74,030	106,477
Derivatives held for hedging:					
- Foreign exchange derivatives	-	(337)	(39)	-	(376)
As at 31 December 2010					
Derivatives held for trading:					
- Foreign exchange derivatives	-	-	8,359	19,286	27,645

The Group's derivatives that will be settled on a gross basis include foreign exchange derivatives i.e. currency forward, currency swaps. The table below analyses the Group's derivative financial assets that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 31 December 2011	Up to one month	One-three months	Three-twelve months	One-five years	Total
Derivatives held for trading:					
- Foreign exchange derivatives					
- Outflow	-	9,578	32,427	179,433	221,438
- Inflow	-	(11,169)	(30,000)	(200,000)	(241,169)
As at 31 December 2010					
Derivatives held for trading:					
- Foreign exchange derivatives					
- Outflow	-	-	-	-	-
- Inflow	-	476	7,814	9,240	17,530

Funding approach

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

Assets available to meet liabilities and to cover outstanding loan commitments include cash and bank balances; loans and advances to banks; and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition, certain assets have been pledged to secure liabilities. The Group would also be able to meet unexpected net cash outflows by selling strategic investments, securities and accessing additional funding sources such as undrawn facilities.

(Thousands of US dollars)

5. Cash and cash equivalents and restricted cash

	2011	2010
Cash on hand	72,166	59,797
Cash at central banks – statutory reserve	126,707	113,725
Cash at central banks – current account	93,500	100,960
Cash at other banks	492,669	493,480
Cash and cash equivalents	785,042	767,962
Restricted cash held in escrow	-	24,433

At 31 December 2010, the National Commercial Bank in the Kingdom of Saudi Arabia held $24.4 million in escrow for the purpose of establishing a new subsidiary holding at 76%. The new company, Gulf Investors for Asset Management, became operational on 12 September 2011.

The cash at central bank-statutory reserve is not available for use.

6. Trading securities

	2011	2010
Trading securities – at fair value		
- Government securities	54,717	32,732
- Corporate securities	9,838	8,611
	64,555	41,343

The movement in trading securities is summarised as follows:

	2011	2010
At 1 January	41,343	3
Conversion of an associate to a subsidiary	-	40,215
Additions	3,591,029	1,295,482
Disposals	(3,572,022)	(1,296,574)
Gain/(loss) on trading	4,774	(4,253)
Revaluation of trading securities	(665)	7,265
Exchange differences	96	(795)
At 31 December	64,555	41,343

7. Investments in financings

	2011	2010
Islamic investments in financings	2,144,841	2,085,181
Financings subject to finance leases	79,804	101,449
Provision for bad and doubtful debts	(235,382)	(235,708)
Provision for impairment on finance leases	-	(7,609)
	1,989,263	1,943,313

(Thousands of US dollars)

7. Investments in financings (continued)

Islamic investments in financings largely comprise conventional loans and advances made by a subsidiary of the Group and a loan on a profit sharing basis to a trust outside the Group in the amount of $104.3 million (2010: $102.2 million).

At 31 December 2009, investments in financings included an amount of $129.7 million, representing the principal outstanding of $167.9 million less fair value adjustments, relating to a Kard Hassan granted to Islamic Investment of the Gulf (Bahamas) Limited acting on behalf of certain funds under its management. On 31 March 2010, the principal was reduced by $124.0 million to settle the subscription for new shares in Ithmaar Bank B.S.C. (note 42) together with professional fees due to Islamic Investment Company of the Gulf (Bahamas) Limited which acted on DMI's behalf. In addition, $33.0 million of the remaining principal was waived by DMI and the balance of $10.9 million was repaid on 28 June 2010. The total profit in the consolidated statement of income in 2010 related to fair value adjustments in respect of the Kard Hassan amounted to $5.2 million.

Financings subject to finance leases

2011	Gross investment in finance leases receivable	Unearned future finance income on finance leases	Net investment in finance leases
Not later than one year	25,236	9,844	35,080
Later than one year and not later than five years	28,210	16,514	44,724
	53,446	26,358	79,804
2010			
Not later than one year	60,555	(5,618)	54,937
Later than one year and not later than five years	53,136	(6,624)	46,512
	113,691	(12,242)	101,449

The allowance for uncollectible finance lease receivables included in the provision for impairment amounted to $Nil million at 31 December 2011 (2010: $7.6 million).

(Thousands of US dollars)

8. Collateral received and re-pledged

Assets held as collateral against advances to financial institutions are as follows:

	Fair value amount	
	2011	**2010**
Assets available to be repledged with obligation to return (shares)	-	2,399
Assets repledged with obligation to return (reverse repo)	244,170	124,781
Assets available to be sold with obligation to return (real estate)	37,746	7,069

Repossessed collateral

The Group obtained assets by taking possession of collateral held as follows:

Nature of assets	Carrying amount	Classification on statement of financial position
2011		
	-	-
2010		
Real estate	17,985	Accounts receivable

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

9. Allowance account from credit losses

Allowance for impairment

Reconciliation of allowance account for losses on investments in financings by class and receivables is as follows:

	Investments in financings						
2011	Corporate financing	Banks and other financial institutions	Agricultural financing	Consumer financing	Other financing	Other receivables	Total
Balance at 1 January	204,819	2,518	2,540	25,238	593	32,983	268,691
Provision for impairment	17,630	-	2,121	22,373	-	8,683	50,807
Reversal of impairment provision	(27,938)	-	(590)	(7,718)	-	(22,151)	(58,397)
Loans written off as uncollectable	-	-	-	(4,795)	-	(1,131)	(5,926)
Transfer from other receivables	-	-	-	-	-	27,255	27,255
Foreign exchange	3,598	(2,518)	676	(3,096)	(69)	(1,247)	(2,656)
Balance at 31 December	**198,109**	**-**	**4,747**	**32,002**	**524**	**44,392**	**279,774**
General impairments	-	-	-	-	-	-	-
Individually impaired loans	198,109	-	4,747	32,002	524	44,392	279,774
Fair value of collateral	464,972	-	58,051	27,132	-	-	550,155

(Thousands of US dollars)

9. Allowance account from credit losses (continued)

2010	Investments in financings: Corporate financing	Banks and other financial institutions	Agricultural financing	Consumer financing	Other financing	Other receivables	Total
Balance at 1 January	-	-	-	19	576	515	1,110
Conversion of an associate to a subsidiary	110,322	-	1,811	31,063	48	(473)	142,771
Acquisition of a subsidiary	88,107	-	689	11,979	-	697	101,472
Provision for impairment	7,662	2,518	50	13,254	-	39,998	63,482
Reversal of impairment provision	-	-	-	-	-	(5,000)	(5,000)
Amounts recovered	(1,272)	-	(10)	(173)	-	(388)	(1,843)
Foreign exchange	-	-	-	(30,904)	(31)	(2,366)	(33,301)
Balance at 31 December	**204,819**	**2,518**	**2,540**	**25,238**	**593**	**32,983**	**268,691**
General impairments	-	-	-	2,539	-	-	2,539
Individually impaired loans	204,819	2,518	2,540	22,699	593	32,983	266,152
Fair value of collateral	428,304	3,430	13,943	60,485	1	75	506,238

10. Investment securities

	2011	2010
Investment securities available-for-sale	1,133,055	1,104,038
Investment securities held to maturity	69,736	114,945
	1,202,791	1,218,983

Investment securities available-for-sale

	2011	2010
Investment securities – at fair value		
- Listed	229,388	203,193
- Unlisted	903,667	900,845
	1,133,055	1,104,038

Gains/(losses) from investment securities

	2011	2010
Sale of available-for-sale assets	79,743	26,647
Derecognition of available-for-sale assets	2,023	(739)
Provision for impairment of available-for-sale assets	(11,662)	(84,500)
Provision for impairment held-to-maturity	(1,895)	-
Term finance certificates	872	(573)
	69,081	(59,165)

(Thousands of US dollars)

10. Investment securities (continued)

The movement in investment securities available-for-sale is summarised as follows:

	2011	2010
At 1 January	1,104,038	1,648
Conversion of an associate to a subsidiary	-	729,141
Acquisition of a subsidiary	-	343,824
Additions	2,064,316	1,130,014
Disposals	(1,975,958)	(1,012,321)
Transfer of provision from accounts payable	-	(2,500)
Net gains/(losses) from changes in fair value	(6,493)	(1,482)
Exchange differences	(41,186)	214
Reversal of impairment provision	5,669	-
Provision for impairment	(17,331)	(84,500)
At 31 December	1,133,055	1,104,038

The movement in investment securities held-to-maturity is summarised as follows:

	2011	2010
At 1 January	114,945	-
Conversion of an associate to a subsidiary	-	102,312
Additions	-	39,152
Maturity	(43,314)	(30,521)
Provision for impairment	(1,895)	-
Exchange differences	-	4,002
	69,736	114,945

(Thousands of US dollars)

11. Fair value of financial instruments

a) Financial instruments measured at fair value

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. There was no change in valuation technique used to fair value financial instruments (2010: $Nil).

b) Financial instrument not measured at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's consolidated statement of financial position at their fair value.

	Carrying amount		Fair value	
	2011	**2010**	**2011**	**2010**
Financial assets				
Investments in financings				
Corporate financing	-	1,361,170	-	1,198,833
Bank and other financial institutions	-	5,857	-	3,340
Agricultural financing	-	63,697	-	61,157
Consumer financing	-	241,765	-	205,353
Government/public financing	-	115,708	-	115,708
Other financing	-	2,348	-	2,299
Investment securities	-	1,648	-	1,648
Financial liabilities				
Customer investment accounts				
Private individuals	-	892,572	-	883,646
Financial institutions	-	57,019	-	56,449
Corporate institutions	-	915,932	-	906,772

11. Fair value of financial instruments (continued)

Investments in financings

Investments in financings are stated net of provisions for impairment. The estimated fair value of investments in financings represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Due to banks and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

Fair value

In the opinion of Group management, the fair value of those financial instruments which are measured at amortised cost in the consolidated statement of financial position are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer financing and deposits, are linked to the market variable rates and hence are being regularly repriced.

c) Fair value hierarchy

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1). This level includes listed equity securities and debt instruments on exchanges and exchange traded derivatives like futures.
- 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) (level 2). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt.
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3). This level includes equity investments and debt instruments with significant unobservable components.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Group. The Group considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

11. Fair value of financial instruments (continued)

Assets and liabilities measured at fair value

At 31 December 2011	Level 1	Level 2	Level 3	Total
Trading securities				
- Equity securities	9,837	-	-	9,837
- Debt securities	54,718	-	-	54,718
Investment securities - available-for-sale				
- Equity securities	177,392	179	150,028	327,599
- Debt securities	-	-	805,456	805,456
Total assets	241,947	179	955,484	1,197,610
Derivatives held for trading	-	376	38,511	38,887
Total liabilities	-	376	38,511	38,887

Reconciliation of Level 3 items

	Trading securities		Investment securities				
	Equity Securities	Debt securities	Equity securities	Debt securities	Total Assets	Financial liabilities held for trading	Total liabilities
At 1 January 2011	8,608	32,732	799,217	307,582	1,148,139	44,698	44,698
Total profit/(loss)							
Profit/(loss)	-	-	(250)	154	(96)	7,138	7,138
- Other comprehensive income/(loss)	-	-	-	-	-	-	-
Purchases	-	-	6,817	2,081,886	2,088,703	-	-
Sales	(8,608)	(32,732)	(663,353)	(1,584,166)	(2,288,859)	(13,325)	(13,325)
Settlements	-	-	7,097	-	7,097	-	-
Transfers into Level 3	-	-	500	-	500	-	-
At December 2011	-	-	150,028	805,456	955,484	38,511	38,511

Total Profit/(losses) for the year included in profit or loss for assets/liabilities held

At 31 December 2011	-	-	(250)	-	(250)	-	-

(Thousands of US dollars)

11. Fair value of financial instruments (continued)

Assets and liabilities measured at fair value

At 31 December 2010	Level 1	Level 2	Level 3	Total
Trading securities				
- Equity securities	3	-	8,608	8,611
- Debt securities	-	-	32,732	32,732
Investment securities - available-for-sale				
- Equity securities	7,132	3,055	799,217	809,404
- Debt securities	-	-	307,582	307,582
Derivatives held for trading	477	-	-	477
Total assets	7,612	3,055	1,148,139	1,158,806
Derivatives held for trading	-	-	44,698	44,698
Total liabilities	-	-	44,698	44,698

Reconciliation of Level 3 items

	Trading securities		Investment securities				
	Equity Securities	Debt securities	Equity securities	Debt securities	Total Assets	Financial liabilities held for trading	Total liabilities
At 1 January 2010	-	-	1,648	-	1,648	-	-
Conversion of an associate to a subsidiary	30,680	9,535	687,975	440,437	1,168,627	-	-
Total profit/(loss)							
Profit/(loss)	1,876	917	57,898	35,522	96,213	5,348	5,348
- Other comprehensive income/(loss)	-	-	-	(1,543)	(1,543)	-	-
Purchases	21,591	1,398,197	73,653	1,331,306	2,824,747	39,350	39,350
Sales	(45,539)	(1,375,917)	(21,957)	(1,498,140)	(2,941,553)	-	-
At December 2010	8,608	32,732	799,217	307,582	1,148,139	44,698	44,698

Total Profit/(losses) for the year included in profit or loss for assets/liabilities held

At 31 December 2010	10,462	-	82,663	-	93,125	-	-

Sensitivity of Level 3 measurements to reasonably possible alternative assumptions

An assumed ± 10% movement in the fair value of level 3 measurement has the following impact:

	Impact in equity	
At 31 December 2011	Favourable changes	Unfavourable changes
Trading securities	-	-
Investment securities – available for sale	95,548	(95,548)
At 31 December 2010		
Trading securities	4,134	(4,134)
Investment securities – available for sale	110,680	(110,680)

(Thousands of US dollars)

12. Accounts receivable

	2011	2010
Accounts receivable	184,342	135,269
Receivables from associated companies (note 35)	-	7
Provision for bad and doubtful debts (note 9)	(44,392)	(32,983)
Funds under management	42,353	91,059
Derivative financial instruments	-	477
	182,303	193,829

Included in accounts receivable are prepayments in the amount of $13.8 million (2010: $16.4 million) and loans to employees and directors of $35.7 million (2010: $43.2 million). The remaining balance relates primarily to project management fees and balances due from customers. Included in the receivable from funds under management at 31 December 2011 was $35.8 million (2010: $25.9 million) in bridge financings made to real estate development funds which were sponsored by a subsidiary of the Group. Bridge financings are generally short-term in nature and are repaid following the sale of participation units in the funds to external investors.

Derivative financial instruments

Foreign exchange derivatives held for trading: OTC equity options

	Contractual amount	Fair value
2011		
	-	-
2010		
	28,582	477

13. Investment property

	2011	2010
At 1 January	392,820	1,003
Conversion of an associate to a subsidiary	-	414,824
Additions	9,942	16,415
Disposals	(7,026)	(27,054)
Fair value losses during the year	(4,514)	(12,314)
Net exchange differences	1,872	(54)
At 31 December	393,094	392,820

Rental income from investment property amounting to $3.4 million (2010: $2.4 million) has been included in the consolidated statement of income under other income. There were $Nil million direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income (2010: $0.1 million) and $Nil million operating expenses arising from investment property that did not generate rental income (2010: $0.1 million).

(Thousands of US dollars)

13. Investment property (continued)

Investment property under operating leases

The Group leases out part of its investment property under operating leases. The leases are for terms of one to five years.

The future aggregate minimum rentals receivable under non cancellable operating leases are as follows:

	2011	2010
Not later than one year	1,819	1,361
Later than one year and not later than five years	5,557	841
	7,376	2,202

14. Investments in associates

	2011	2010
At 1 January	916,675	399,917
Share of results before tax	54,844	57,791
Share of tax	(22,318)	(8,901)
Dividends paid	(26,090)	(10,162)
Share of treasury shares	-	(194)
Share of fair value gains/(losses)	(22,903)	16,689
Additions	-	8,000
Goodwill impairment	-	(18,000)
Amortisation of intangibles	(6,749)	(5,061)
Exchange differences	(8,573)	(7,632)
Mark up to fair value	-	375,149
Conversion of an associate to a subsidiary	-	(587,125)
Addition of associates of subsidiary	-	696,204
At 31 December	884,886	916,675

(Thousands of US dollars)

14. Investments in associates (continued)

Ithmaar Bank B.S.C.

On 31 March 2010, DMI acquired an additional 400 million shares of Ithmaar Bank B.S.C. by participation in a rights issue at a price of $0.25 per share for a total consideration of $100 million. As a result of this transaction, DMI owns 52.6% of the outstanding shares of Ithmaar Bank B.S.C. converting it from an associate to a subsidiary (note 42), which has resulted in the full consolidation of Ithmaar's income statement and balance sheet at 31 December 2010.

The step acquisition from the associated company to the subsidiary company resulted in a net gain of $334.9 million, which is included in the consolidated statement of income. This amount comprised a mark up to fair value of the associated company shareholding of 44.9%. In assessing the above gain, DMI has relied upon an independent valuation commissioned from an international firm of chartered accountants who established a value using various valuation methodologies comprising the average of a peer group market analysis of banks listed on the Bahrain Bourse and a discounted cash flow adjusted for an estimated control premium but which did not include a reference to the market price of Ithmaar Bank's shares at the relevant time. Both the independent valuer and DMI believe that the share price quoted on the Bahrain Bourse does not reflect the fair value of the business and they also do not consider that the historical turnover of the shares constitutes an active market. As a result, the share price was disregarded in the valuation. In addition, DMI's share of Ithmaar Bank B.S.C. reserves held in equity were recycled as follows:

At 31 March 2010

44.9% carrying value	211,976
44.9% fair value	587,125
Mark up to fair value	375,149
Reserves held in equity:	
Investment security revaluation reserve	(14,892)
General reserve	973
Foreign exchange	(26,345)
Net gain on step acquisition	334,886

(Thousands of US dollars)

14. Investments in associates (continued)

The summarised financial information of the Group's principal associates is as follows:

Name and Country of incorporation	Assets	Liabilities	Income	Profit/(loss)	Published price quotation	---------% holding--------- Subsidiary	Group
2011							
Unlisted:							
Solidarity Group Holding B.S.C. (c) (Bahrain)	247,138	57,790	13,773	2,565	-	34	18
First Leasing Bank B.S.C. (c) (Bahrain)	113,598	22,363	5,426	(9,431)	-	43	23
CITIC International Asset Management Limited (Hong Kong)	401,671	52,329	30,312	20	-	20	11
CIAM-Shamil Asset Management Company Limited (Hong Kong)	630	6	380	276	-	50	27
Sanpak Engineering (Pakistan)	9,646	7,552	1,306	(245)	-	31	17
*Islamic Company for Production, Printing and Packing Materials "Icopack" (Egypt)	25,214	10,584	2,794	751	-	23	12
*Misr Company for Packing Materials "Egywrap" (Egypt)	35,138	16,104	6,011	1,294	-	23	12
Faysal Asset Management Limited (Pakistan)	3,224	360	1,280	164	-	30	16
*Ithraa Capital (Saudi Arabia)	18,301	800	440	(1,879)	-	23	12
Naseej B.S.C. (c) (Bahrain)	296,589	472	4,822	2,233	-	29	15
*Chase Manara B.S.C. (c) (Bahrain)	5,391	132	207	66	-	40	21
*Islamic Trading Company E.C. (Bahrain)	8,453	70	411	(40)	-	24	13
*Emerging Markets Partnership Bahrain B.S.C. (c) (Bahrain)	3,148	865	2,517	182	-	40	21

* For some of the associates, published information is not available for 31 December 2011 and therefore the income and profit and loss have been arrived at by using the last audited financial statements and projecting for 2011. For presentation purposes, the assets and liabilities for these associates, however, represent the amounts as per the last audited financial statements.

(Thousands of US dollars)

14. Investments in associates (continued)

The summarised financial information of the Group's principal associates is as follows:

Name and Country of incorporation	Assets	Liabilities	Income	Profit/(loss)	Published price quotation	---------% holding--------- Subsidiary	Group
2010							
Unlisted:							
Solidarity Group Holding B.S.C. (c) (Bahrain)	276,915	79,627	10,134	(10,973)	-	34	18
First Leasing Bank B.S.C. (c) (Bahrain)	147,535	46,868	6,505	(3,508)	-	35	19
CITIC International Asset Management Limited (Hong Kong)	423,403	50,106	55,690	29,643	-	20	11
CIAM-Shamil Asset Management Company Limited (Hong Kong)	488	348	532	327	-	50	27
Sanpak Engineering (Pakistan)	9,720	7,396	653	(115)	-	31	17
*Islamic Company for Production, Printing and Packing Materials "Icopack" (Egypt)	21,303	7,541	10,395	1,884	-	23	12
*Misr Company for Packing Materials "Egywrap" (Egypt)	31,293	10,289	19,629	2,335	-	23	12
Faysal Asset Management Limited (Pakistan)	3,896	780	1,000	180	-	30	16
*Ithraa Capital (Saudi Arabia)	20,664	648	356	(2,062)	-	23	12
Naseej B.S.C. (c) (Bahrain)	294,641	324	9,650	6,689	-	29	15
*Chase Manara B.S.C. (c) (Bahrain)	5,207	24	90	(95)	-	40	21
*Islamic Trading Company E.C. (Bahrain)	8,588	68	620	241	-	24	13
*Emerging Markets Partnership Bahrain B.S.C. (c) (Bahrain)	2,880	899	5,163	336	-	40	21

* For some of the associates, published information is not available for 31 December 2010 and therefore the income and profit and loss have been arrived at by using the last audited financial statements and projecting for 2010. For presentation purposes, the assets and liabilities for these associates, however, represent the amounts as per the last audited financial statements.

(Thousands of US dollars)

14. Investments in associates (continued)

The summarised financial information of the Group's principal associates is as follows:

Name and Country of incorporation	Assets	Liabilities	Income	Profit/ (loss)	Published price quotation	Carrying value per share	% holding Subsidiary	% holding Group
2011								
Listed:								
Faisal Islamic Bank of Egypt (Egypt)	5,816,941	5,478,745	371,565	31,403	USD 3.61	USD 7.23	49	49
BBK B.S.C. (Bahrain)	7,334,361	6,703,011	280,637	84,507	BHD 0.41	BHD 0.70	25	13
2010								
Listed:								
Faisal Islamic Bank of Egypt (Egypt)	5,453,843	5,081,403	325,721	59,905	USD 3.47	USD 7.81	49	49
BBK B.S.C. (Bahrain)	6,491,186	5,853,143	289,332	103,825	BHD 0.43	BHD 0.71	25	13

USD United States Dollar
BHD Bahrain Dinar

Ithmaar Bank has received in principle approval from the Central Bank of Bahrain on 6 December 2010 for the proposed acquisition of the remaining shares in First Leasing Bank B.S.C. (C) (FLB) through a share swap, subject to compliance with various conditions. The Bank is currently in discussion with FLB on the proposed share swap ratio.

Included in investment in associates at 31 December 2011 is $175.1 million (2010: $175.1 million) of goodwill. The movement is as follows:

	2011	2010
At 1 January	175,141	67,878
Conversion of an associate to a subsidiary	-	(23,334)
Additions from conversion of an associate to a subsidiary	-	148,597
Additions	-	-
Provision for impairment	-	(18,000)
At 31 December	175,141	175,141

(Thousands of US dollars)

15. Property, Plant and Equipment

	Land and buildings	Leasehold property, furniture, aircrafts, equipment and motor vehicles	Total
Cost			
At 1 January 2011	79,992	145,116	225,108
Additions	16,591	17,548	34,139
Disposals	-	(26,872)	(26,872)
Currency effect	(1,414)	(5,470)	(6,884)
At 31 December 2011	95,169	130,322	225,491
Depreciation			
At 1 January 2011	3,691	71,698	75,389
Charge for the year	1,210	20,560	21,770
Impairment for the year	-	5,955	5,955
Disposals/transfers	(599)	(8,489)	(9,088)
Currency effect	388	(3,860)	(3,472)
At 31 December 2011	4,690	85,864	90,554
Cost			
At 1 January 2010	1,656	5,854	7,510
Conversion of associate to a subsidiary	57,322	95,295	152,617
Acquisition of a subsidiary	18,225	56,777	75,002
Additions	2,855	5,638	8,493
Disposals	(785)	(18,500)	(19,285)
Currency effect	719	52	771
At 31 December 2010	79,992	145,116	225,108
Depreciation			
At 1 January 2010	653	3,922	4,575
Conversion of associate to a subsidiary	1,436	48,091	49,527
Acquisition of a subsidiary	1,255	29,461	30,716
Charge for the year	583	8,639	9,222
Impairment reversal	(936)	(2,300)	(3,236)
Disposals/transfers	(23)	(16,168)	(16,191)
Currency effect	723	54	777
At 31 December 2010	3,691	71,699	75,390
Net book value			
At 31 December 2011	90,479	44,458	134,937
At 31 December 2010	76,301	73,417	149,718

Land and buildings at 31 December 2011 included cost of land aggregated $75.9 million (2010: $64.1 million).

Leasehold property at 31 December 2011 aggregated $36.0 million (2010: $52.1 million), less accumulated depreciation of $23.2 million (2010: $21.8 million).

(Thousands of US dollars)

16. Intangible assets

	Goodwill	Customer relations	Core deposits	Other*	Total
2011					
Year ended 31 December					
Opening net book amount	372,425	100,537	130,322	1,396	604,680
Additions	-	-	-	3,252	3,252
Foreign exchange	(724)	(4,973)	(81)	2,691	(3,087)
Amortisation	-	(7,858)	(9,789)	(2,353)	(20,000)
Closing net book amount	371,701	87,706	120,452	4,986	584,845
At 31 December					
Cost	407,215	118,358	172,049	20,665	718,287
Accumulated amortisation and impairment	(35,514)	(30,652)	(51,597)	(15,679)	(133,442)
Net book amount	371,701	87,706	120,452	4,986	584,845
2010					
Year ended 31 December					
Opening net book amount	67,186	1,552	26,620	502	95,860
Additions	258,824	8,120	5,680	2,077	274,701
Acquisition of a subsidiary	-	29,856	-	378	30,234
Disposal	-	-	-	(151)	(151)
Conversion of an associate to a subsidiary	81,683	61,481	106,177	5,221	254,562
Foreign exchange	(268)	126	(377)	(227)	(746)
Amortisation	-	(598)	(7,778)	(5,654)	(14,030)
Impairment	(35,000)	-	-	(750)	(35,750)
Closing net book amount	372,425	100,537	130,322	1,396	604,680
At 31 December					
Cost	407,939	123,331	172,130	15,312	718,712
Accumulated amortisation and impairment	(35,514)	(22,794)	(41,808)	(13,916)	(114,032)
Net book amount	372,425	100,537	130,322	1,396	604,680

* Other intangible assets included $5.5 million at 31 December 2011 (2010: $1.4 million) of computer software related to core banking systems, which is being amortised over five years.

Included in additions in customer relations in 2010 is an amount of $29.9 million due to an acquisition of a subsidiary in Pakistan (note 42).

(Thousands of US dollars)

16. Intangible assets (continued)

The carrying amount of goodwill has been allocated to cash-generating units as follows:

	2011	2010
Ithmaar Bank B.S.C.	258,824	258,824
Ithmaar Bank B.S.C. (formerly Shamil Bank B.S.C.)	66,070	66,070
Faysal Bank Limited	14,621	15,345
Islamic Investment Company of the Gulf (Bahamas) Limited	32,186	32,186
	371,701	372,425

17. Non-current assets and liabilities and discontinued operations held for sale

Non-current assets and liabilities held for sale

At 31 December 2011 non-current assets held for sale included vacant properties comprising land and buildings in the amount of $20.9 million which Faysal Bank Limited management intends to dispose of in the future and the carrying amount will be recovered principally through a sale transaction rather than continuing use.

On 1 October 2010, the Board of Directors of Faysal Management Services (Private) Limited (FMSL), a subsidiary of Faysal Bank Limited in which it has 60% shareholding, decided to voluntarily wind up the company and accordingly, resolved to initiate proceedings of winding up by the members of FMSL under the Companies Ordinance, 1984. In view of this, the net assets of FMSL in the amount of $2.1 million have been classified as "non-current assets held for sale" in the consolidated financial statements and valued at lower of cost and fair value less cost to sell. At 31 December 2011, the same assets amounting to $2.2 million remained classified as non-current assets held for sale.

(Thousands of US dollars)

18. Accounts payable

	2011	2010
Accounts payable and other provisions	62,727	48,750
Advance received from customers	27,596	36,842
Demand drafts	34,216	53,541
Accruals	21,964	25,485
Security deposits on consumer leases	26,507	34,195
Funds under management	518,134	390,750
Dividends payable	16,673	17,591
Derivative financial instruments	38,887	44,698
Employee payables	26,265	38,119
Deferred income	361	40
	773,330	690,011

There were no liabilities against assets subject to finance leases at 31 December 2011 (2010: $Nil).

Derivative financial instruments

2011	Contractual amount	Fair value
Foreign exchange derivatives held for trading:		
Currency forwards	467,194	38,887
2010		
Currency forwards	621,505	44,698

(Thousands of US dollars)

19. Tax liability

	2011	2010
Current tax (receivable)/payable		
At 1 January	(7,874)	(31)
Conversion of associate to a subsidiary	-	(1,169)
Charge for the period	8,581	2,604
Adjustment	104	7,459
Payments made	(13,663)	(16,924)
Refund	-	5
Exchange differences	768	182
At 31 December	(12,084)	(7,874)
Deferred tax (asset)/liability		
At 1 January	(48,486)	-
Conversion of associate to a subsidiary	-	(7,301)
Charge for the period	(8,411)	(11,204)
Acquisition of a subsidiary	-	(23,500)
Changes due to fair value reserve	(1,995)	3,125
Adjustment	-	(12,787)
Refund	-	3,181
Exchange differences	2,873	-
At 31 December	(56,019)	(48,486)

20. Massaref accounts

	2011	2010
Customer current accounts		
Individuals	362,053	373,802
Corporate institutions	428,792	307,794
Financial institutions	1,237	2,588
Customer investment accounts		
Individuals	833,143	892,759
Corporate institutions	1,034,111	1,026,547
Financial institutions	69,252	57,019
Due to associated companies (note 35)	20,000	20,000
Investments from off balance sheet funds	233,732	223,980
Due to banks and financial institutions	1,607,492	1,698,997
	4,589,812	4,603,486

Due to customers represent conventional deposits accepted by a subsidiary of the Group. Due to customers include floating rate unsecured term finance certificates issued by a subsidiary.

Included in investments from off balance sheet funds at 31 December 2011 is an amount of $104.3 million (2010: $102.2 million), which relates to investments received from off balance sheet funds and which was subsequently reinvested in investments in financings outside of the Group. The remaining amount represents off balance sheet funds invested with the Group's subsidiaries.

(Thousands of US dollars)

20. Massaref accounts (continued)

Due to banks and financial institutions include deposits totalling $885.5 million (2010: $878.1 million) from three counterparties having contractual maturity ranging from one month to 3 years. Out of these, deposits totalling $649.8 million (2010: $649.2 million) are from two counterparties which are subject to freeze and originating from jurisdiction under US and UN sanctions.

Due to banks include short and medium term borrowings by the Group under bilateral and multilateral arrangement with maturities ranging from one year to five years.

21. Provisions

Included under liabilities are provisions of $55.0 million (2010: $55 million) relating to a guarantee issued to certain funds under management, and $18 million (2010: $23.0 million) relating to a specific asset risk. Included under expenses at 31 December 2011 is a reversal of $22.2 million and a charge of $8.7 million (2010: charge $35.0 million) of provisions relating to project receivables, which is included under receivables (note 9), and a reversal of $5.0 million related to specific risk in 2010.

22. Collateralised borrowings

Financial assets pledged to secure liabilities:

At 31 December 2011, there were collateralised borrowings in aggregate $177.6 million (2010: $188.8 million).

Cash dividends amounting to $13.8 million (2010: $3.8 million) on certain shares pledged as collateral was directly received by the lender during the year and adjusted against the outstanding facility amount as per the agreed terms.

Assets, which are pledged as collateral, are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

23. Net trading income

	2011	2010
Income from foreign exchange trading	9,853	4,427
Gains/(losses) on trading securities	7,802	(3,335)
Gains from revaluation	6,751	7,265
	24,406	8,357

Foreign exchange trading includes gains and losses from spot and forward contracts translated from foreign currency assets and liabilities.

24. Income from investments in financings

	2011	2010
Income from investments in financings	259,093	142,450
Present value adjustment	-	4,986
Provision for bad and doubtful debts	(42,124)	(23,021)
Reversal of provision for bad and doubtful debts	36,246	-
	253,215	124,415

Included in the present value adjustment in 2010 is an upward adjustment of $5.2 million which represents the credit required to adjust the carrying value of the Kard Hassan, which was retired in full on 28 June 2010 (note 7).

(Thousands of US dollars)

25. Fee and commission income

	2011	2010
Arrangement fees	2,493	1,884
Guarantee fees	1,773	910
Documentary credit fees	5,211	2,198
Structuring fees and commissions	425	14,836
Aircraft rental fees	12,135	-
Fees from associated companies (note 35)	350	-
Other fees	28,486	16,022
Fees and commissions expense	(3)	(544)
	50,870	35,306

26. Dividend income

	2011	2010
Investment securities held to maturity	2,050	-
Investment securities available-for-sale	7,655	51,611
	9,705	51,611

27. Other income

	2011	2010
Fair value loss on investment properties	(4,514)	(12,314)
Rental income from investment properties	3,436	2,392
Gain on liquidation of a subsidiary	-	1,051
Loss on sale of a subsidiary	-	(868)
Acquisition of a subsidiary (note 42)	-	38,746
Other	4,714	4,742
	3,636	33,749

28. Staff costs

	2011	2010
Salaries	77,212	69,895
Social security and other statutory costs	3,883	2,984
Pension and end of service	8,177	3,103
Other benefits	18,678	15,301
	107,950	91,283

Other benefits include housing allowance, home leave, relocation expense, medical and health expense, training, severance costs and end of service benefit costs.

29. General and administrative expenses

	2011	2010
Office expenses	55,084	31,853
Professional fees	17,534	33,895
Other	18,083	15,657
	90,701	81,405

Included in the 2010 professional fees are fees amounting to $24.0 million paid to IICG Funds under Management for services rendered in connection with the acquisition of 400 million shares of Ithmaar Bank B.S.C. on 31 March 2010 (note 42).

30. Proposed dividend

No dividend has been proposed for 2011 (2010: Nil).

(Thousands of US dollars)

31. Taxes

	2011	2010
Current taxes	8,581	2,604
Gain on deferred taxes	(8,411)	(11,204)
	170	(8,600)

The expected income tax expense for the Group is an aggregate of individual amounts representing the mix of profits and losses and the applicable tax rates in each jurisdiction. Consequently, the effective tax rate on consolidated income may vary from year to year, according to the source of earnings. Most affiliates of the Group operate in tax free jurisdictions.

A reconciliation between the reported income tax and the amount computed, using the weighted average of applicable domestic corporate tax rates, is as follows:

	2011	2010
Net accounting (loss)/profit	(34,121)	68,794
Weighted average applicable domestic corporate tax rate	(0.5)%	(12.9)%
Weighted average applicable domestic corporate tax	3,608	12,404
Effect of revenue taxed at a different rate than domestic corporate tax rate	(3,438)	(21,004)
Effective tax gain	170	(8,600)

The relationship between profit before taxes and non-controlling interests and the expected current income tax expense reflects the mix of profits earned in jurisdictions with relatively high tax rates and those with relatively low tax rates.

32. Non-controlling interests

The consolidated financial statements include 100% of the assets, liabilities and earnings of consolidated companies. The ownership interests of the other shareholders are called non-controlling interests.

The following table summarises the non-controlling shareholders' interests in the equity of consolidated subsidiaries.

	2011		2010	
	Non-controlling %		Non-controlling %	
Ithmaar Bank B.S.C. and wholly owned subsidiaries	47	294,486	47	325,227
Faysal Bank Limited	33	86,323	34	92,459
Gulf Investors Asset Management	27	8,654	-	-
Health Island B.S.C. (C)	50	111,866	50	111,342
Ithmaar Aviation Lease One (Dublin) Ltd.	5	341	5	341
Cityview Real Estate Development B.S.C. (C)	49	1,663	49	1,574
Marina Reef Real Estate Development B. S.C. (C)	49	5,238	49	4,862
Sakana Holistic Housing Solutions B. S.C. (C)	50	27,251	50	27,114
		535,822		562,919

The non-controlling interest appropriation in the consolidated statement of income of $18.7 million represents the non-controlling shareholders' share of the loss of these subsidiaries for 2011 (2010: $52.8 million).

(Thousands of US dollars)

33. Funds under management

Funds under management aggregated $3.5 billion (2010: $4.0 billion) and represented amounts invested by clients and placed with funds managed by the Group. These funds are invested without recourse to the Group. The Group earned fees of approximately $27.0 million associated with such funds in 2011 (2010: $23.5 million).

At 31 December 2011, the Group had amounts due to funds under management of $751.9 million (2010: $613.0 million) and due from of $210.1 million (2010: $442.7 million).

34. Retirement benefit plans

Substantially all employees of the Group's European incorporated subsidiaries are covered either by insured or state pension plans. In accordance with local practice, no pension plans exist in certain countries in which the Group operates.

The Group's principal retirement benefit plans are in Switzerland and are defined benefit plans. The assets of the funded plans are held in separate trustee administered funds. These plans are valued by independent actuaries every year using the projected unit credit method.

The assumptions used in the actuarial valuations for 2011 are the best estimates of the main parameters influencing the pension liability and are detailed as follows:

	2011	2010
Standard financial cost rate	2.8 %	2.8 %
Expected long-term rates of return on plan assets	2.9 %	3.8 %
Rate of increase in compensation	2.0 %	2.0 %
The funded status of the Group's pension plans is as follows:		
Projected benefits obligations	71,569	70,098
Plan assets at fair values	(61,691)	(66,712)
Funded status	9,878	3,386
Unrecognised actuarial (loss)/gain	(6,450)	(3,046)
Liability in the statement of financial position	3,428	340
Net periodic pension cost consists of the following:		
Service costs	2,418	2,129
Financial costs	1,818	2,038
Expected return on assets	(1,789)	(2,283)
Recognition of past service costs	4,063	-
Recognition of settlement (gains)/losses	(1,416)	-
Total cost	5,094	1,884
Employee contributions	(491)	(557)
Net periodic pension cost	4,603	1,327
Movement in the liability recognised in the statement of financial position:		
At 1 January	340	-
Conversion of an associate to subsidiary	-	484
Exchange differences	299	587
Net periodic pension cost	4,603	1,327
Employer contributions	(1,814)	(2,058)
At 31 December	3,428	340

(Thousands of US dollars)

34. Retirement benefit plans (continued)

The movement in the defined benefit obligation over the year is as follows:

	2011	2010
At 1 January	70,098	-
Conversion of an associate to a subsidiary	-	57,627
Service costs	2,418	2,129
Financial costs	1,818	2,038
Employee contributions	491	557
Past service costs	4,063	-
Actuarial gain	4,158	5,342
Benefits paid	(924)	(3,040)
Premiums paid	(359)	(430)
Plan settlements	(10,020)	-
Exchange differences	(174)	5,875
At 31 December	71,569	70,098
The movement in the fair value of plan assets of the year is as follows:		
At 1 January	66,712	-
Conversion of an associate to a subsidiary	-	60,671
Expected return on plan assets	1,789	2,283
Actuarial gain/(loss)	328	(1,583)
Employer contributions	1,814	2,058
Employee contributions	491	557
Benefits paid	(924)	(3,040)
Premiums paid	(359)	(430)
Plan settlements	(8,166)	-
Exchange differences	6	6,196
At 31 December	61,691	66,712
Actual return on plan assets	2,137	854

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected returns on fixed rate investments are based upon gross redemption yields as at the date of the statement of financial position. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets. The expected return for each asset class was weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The weighted-average asset allocations at the year-end were as follows:

	2011	2010
Bonds	58.8%	63.5%
Property	22.7%	20.9%
Other	18.5%	15.6%
	100.0%	100.0%

(Thousands of US dollars)

34. Retirement benefit plans (continued)

Expected contributions to post employment benefit plans for the year ending 31 December 2012 $1.5 million (2011 is $1.5 million).

As at 31 December	2011	2010
Present value of defined benefit obligation	71,569	70,098
Fair value of plan assets	61,691	66,712
(Surplus)/deficit	9,878	3,386
Experience adjustments on plan assets	328	(1,583)
Experience adjustments on plan liabilities	812	2,298
Plan assets invested in real estate currently used by a subsidiary of the Group	13,985	13,932

35. Related party transactions and balances

Related parties include equity participation holders, directors, associated companies and other companies, whose ownership and management is common with DMI or its subsidiaries and associates. A number of transactions are entered into with related parties in the normal course of business. These include loans, current and investment accounts. Transactions and balances disclosed as with associated companies are those with companies in which the Bank owns 20% to 50% of the voting rights and over which it exerts significant influence, but does not have control. The volumes of related party transactions, outstanding balances at the year end, and relating income and expense for the year are as follows.

a) Loans to key management personnel

	2011	2010
Loans		
Loans outstanding at 1 January	1,014	-
Conversion of an associate to a subsidiary	-	945
Loans issued during the year	1,667	1,983
Loan repayments during the year	(588)	(1,948)
Foreign exchange	(28)	34
Loans outstanding at 31 December	2,065	1,014

No provisions were recognised in respect of loans given to related parties (2010: $Nil).

Loans advanced to key management personnel bear no return and are unsecured.

b) Loans to employees

All employees of the Group are entitled to receive employee loans on favourable terms not equivalent to those of transactions made on an arm's length basis. Included in accounts receivable are amounts due from employees at 31 December 2011 of $35.7 million (2010: $43.2 million).

(Thousands of US dollars)

35. Related party transactions and balances (continued)

c) Current and investment accounts

	Associated companies	
Period ended	2011	2010
Amounts payable to:		
Faisal Islamic Bank of Egypt	20,000	20,000
Amounts receivable from:		
Faisal Islamic Bank of Egypt	-	7
Expense on current and investment accounts:		
Ithmaar Bank B.S.C.	-	3,845
Revenue on current and investment accounts:		
Ithmaar Bank B.S.C.	-	8
Solidarity Group Holding B.S.C.	350	-

Related party transactions pertaining to acquisitions and disposals are described in note 42.

d) Key management compensation

	2011	2010
Salaries and other short-term benefits	18,313	19,909
Post-employment benefits	715	996
Other long-term benefits	515	493
	19,543	21,398

(Thousands of US dollars)

36. Contingent liabilities and commitments

	2011	2010
Contingent liabilities		
Acceptances and endorsements	109,867	31,964
Performance bid bonds	18,093	23,992
Customer claims	413,939	103,034
Guarantees and irrevocable letters of credit	491,175	566,720
	1,033,074	725,710

The Group operates in certain countries which have tax regimes, but for which no provision for income tax has been recorded in these financial statements. It is believed that the Group's potential tax liability arising in respect of its operations in those countries is remote at the present time.

Faisal Islamic Bank of Egypt carried at 31 December 2011 contingent liabilities of $23.8 million (December 2010: $32.2 million), of which the Group's share was $11.6 million (December 2010: $15.8 million). These related to guarantees and letters of credit issued as part of their normal banking operations.

BBK carried at 31 December 2011 contingent liabilities of $1,450.1 million (December 2010: $1,428.5 million), of which the Group's share was $193.2 million (December 2010: $190.3 million). These related to guarantees and letters of credit issued as part of their normal banking operations.

First Leasing Bank carried at 31 December 2011 contingent liabilities of $Nil million (December 2010: $2.3 million), of which the Group's share was $Nil million (December 2010: $0.4 million). These related to guarantees and letters of credit issued as part of their normal banking operations.

	2011	2010
Commitments		
Undrawn facilities, financing lines	691,589	998,473
Other commitments to finance	45,227	44,233
Repurchase and resale transactions	244,170	129,837
	980,986	1,172,543

(Thousands of US dollars)

36. Contingent liabilities and commitments (continued)

Operating lease commitments

Commitments for operating leases included cars and office equipment.

The future minimum lease payments under non cancellable operating leases are as follows:

	2011	2010
Not later than one year	40	91
Later than one year and not later than five years	6	46
	46	137
Significant net open foreign currency position	773,098	88,556

(Thousands of US dollars)

37. Current and non-current assets and liabilities

At 31 December 2011

	Current	Non-current	Total
Cash and cash equivalents	785,042	-	785,042
Due from Islamic institutions	120,318	196	120,514
Trading securities	64,555	-	64,555
Investments in financings	1,268,940	720,323	1,989,263
Investment securities	828,363	374,428	1,202,791
Accounts receivable	134,867	47,436	182,303
Current tax receivable	12,987	-	12,987
Investment property	56,367	336,727	393,094
Investments in associates	-	884,886	884,886
Property, plant and equipment	-	134,937	134,937
Intangible assets	-	584,845	584,845
Non-current assets held for sale	-	23,146	23,146
Deferred tax assets	-	60,911	60,911
Total assets	**3,271,439**	**3,167,835**	**6,439,274**
Customer current accounts	792,082	-	792,082
Customer investment accounts	1,222,895	713,610	1,936,505
Due to banks and other financial institutions	1,349,395	278,097	1,627,492
Investments from off balance sheet funds	37,291	196,442	233,733
Provisions	-	73,000	73,000
Non-current liabilities held for sale	-	3	3
Accounts payable	711,862	61,468	773,330
Current tax payable	903	-	903
Deferred tax liabilities	-	4,892	4,892
Total liabilities	**4,114,428**	**1,327,512**	**5,441,940**
Net assets	**(842,989)**	**1,840,323**	**(997,334)**

At 31 December 2010

Total assets	**3,177,162**	**3,293,177**	**6,470,339**
Total liabilities	**4,838,112**	**544,923**	**5,383,035**
Net assets	**(1,660,950)**	**2,748,254**	**1,087,304**

(Thousands of US dollars)

38. Concentration of assets and liabilities

Assets and liabilities of the Group are located in the following geographical regions and industry sectors:

Geographical regions	Asia/ Pacific	Middle East	Europe	North America	Others	Total
At 31 December 2011						
Cash and cash equivalents	256,458	385,959	135,073	7,552	-	785,042
Due from Islamic institutions	-	120,514	-	-	-	120,514
Trading securities	64,552	3	-	-	-	64,555
Investments in financings	1,733,547	68,653	112,721	16,273	58,069	1,989,263
Investment securities	992,099	180,031	6,864	23,797	-	1,202,791
Accounts receivable	63,792	80,641	12,583	25,234	53	182,303
Current tax receivable	5,325	7,143	519	-	-	12,987
Investment property	8,832	278,116	106,146	-	-	393,094
Investments in associates	66,889	817,685	312	-	-	884,886
Property, plant and equipment	62,325	71,978	634	-	-	134,937
Intangible assets	29,563	550,793	4,489	-	-	584,845
Non-current assets held for sale	23,146	-	-	-	-	23,146
Deferred tax assets	60,911	-	-	-	-	60,911
Total assets	**3,367,439**	**2,561,516**	**379,341**	**72,856**	**58,122**	**6,439,274**
Customer current accounts	549,221	163,626	59,946	8,411	10,878	792,082
Customer investment accounts	1,920,460	9,979	6,066	-	-	1,936,505
Due to banks	444,537	941,042	229,362	-	12,551	1,627,492
Investments from off balance sheet funds	-	25,003	112,165	96,565	-	233,733
Provisions	-	18,000	55,000	-	-	73,000
Non-current liabilities held for sale	3	-	-	-	-	3
Accounts payable	124,576	634,912	13,812	30	-	773,330
Current tax payable	105	11	787	-	-	903
Deferred tax liabilities	-	-	4,892	-	-	4,892
Total liabilities	**3,038,902**	**1,792,573**	**482,030**	**105,006**	**23,429**	**5,441,940**
Net on-balance sheet position	**328,537**	**768,943**	**(102,689)**	**(32,150)**	**34,693**	**(997,334)**
Contingent liabilities and commitments	**1,832,214**	**133,621**	**14,689**	**14,186**	**19,486**	**2,014,106**
At 31 December 2010						
Total assets	**3,209,543**	**2,725,058**	**383,043**	**52,233**	**100,462**	**6,470,339**
Total liabilities	**3,206,909**	**1,503,040**	**498,119**	**124,171**	**50,796**	**5,383,035**
Net on-balance sheet position	**2,634**	**1,222,018**	**(115,076)**	**(71,938)**	**49,666**	**1,087,304**
Contingent liabilities and commitments	**1,701,345**	**121,888**	**20,265**	**14,191**	**40,701**	**1,898,390**

(Thousands of US dollars)

38. Concentration of assets and liabilities (continued)

As at 31 December 2011

Industry sectors	Banks and financial institutions	Trading and manufacturing	Property and construction	Private individuals	Services	Textile	Other	Total
Cash and cash equivalents	692,292	-	-	-	92,747	-	3	785,042
Due from Islamic institutions	120,514	-	-	-	-	-	-	120,514
Trading securities	26,523	4,269	-	-	29,648	-	4,115	64,555
Investments in financings	198,023	270,522	92,400	163,373	138,351	304,832	821,762	1,989,263
Investment securities	183,949	25,343	68,851	-	901,238	914	22,496	1,202,791
Accounts receivable	89,405	3,722	46,702	22,347	1,467	5,379	13,281	182,303
Current tax receivable	-	-	-	-	12,987	-	-	12,987
Investment property	8,832	-	384,262	-	-	-	-	393,094
Investments in associates	869,094	13,688	2,104	-	-	-	-	884,886
Property, plant and equipment	-	-	134,937	-	-	-	-	134,937
Intangible assets	584,845	-	-	-	-	-	-	584,845
Non-current assets held for sale	23,146	-	-	-	-	-	-	23,146
Deferred tax assets	60,911	-	-	-	-	-	-	60,911
Total assets	**2,857,534**	**317,544**	**729,256**	**185,720**	**1,176,438**	**311,125**	**861,657**	**6,439,274**
Customer current accounts	41,906	128,299	23,989	300,236	59,705	5,336	232,611	792,082
Customer investment accounts	103,490	175,205	15,176	897,424	37,131	18,256	689,823	1,936,505
Due to banks	1,627,492	-	-	-	-	-	-	1,627,492
Investments from off balance sheet funds	233,733	-	-	-	-	-	-	233,733
Provisions	18,000	-	55,000	-	-	-	-	73,000
Non-current liabilities held for sale	3	-	-	-	-	-	-	3
Accounts payable	35,023	53,764	49,550	77,086	12,318	-	545,589	773,330
Current tax payable	-	-	-	-	903	-	-	903
Deferred tax liabilities	-	-	4,892	-	-	-	-	4,892
Total liabilities	**2,059,647**	**357,268**	**148,607**	**1,274,746**	**110,057**	**23,592**	**1,468,023**	**5,441,940**
Net on-balance sheet position	**797,887**	**(39,724)**	**580,649**	**(1,089,026)**	**1,066,381**	**287,533**	**(606,366)**	**(997,334)**
Contingent liabilities and commitments	**327,292**	**185,394**	**51,993**	**42,242**	**58,532**	**28,524**	**1,320,129**	**2,014,106**

At 31 December 2010

Industry sectors	Banks and financial institutions	Trading and manufacturing	Property and construction	Private individuals	Services	Textile	Other	Total
Total assets	**3,617,911**	**401,928**	**864,396**	**240,219**	**406,221**	**339,470**	**600,191**	**6,470,339**
Total liabilities	**1,938,497**	**455,198**	**376,838**	**1,496,116**	**258,616**	**34,063**	**823,707**	**5,383,035**
Net on-balance sheet position	**1,679,414**	**(53,270)**	**487,558**	**(1,255,897)**	**147,608**	**305,407**	**(223,516)**	**1,087,304**
Contingent liabilities and commitments	**274,787**	**886,767**	**98,872**	**83,815**	**238,597**	**119,386**	**196,166**	**1,898,390**

(Thousands of US dollars)

39. Maturities of assets and liabilities

The maturity profiles of assets and liabilities of the Group are as follows:

As at 31 December 2011

	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Total
Cash and cash equivalents	781,937	3,105	-	-	-	785,042
Due from Islamic institutions	60,125	5,001	55,192	196	-	120,514
Trading securities	64,552	-	3	-	-	64,555
Investments in financings	222,187	452,664	594,088	475,999	244,325	1,989,263
Investment securities	90,028	38,803	699,533	194,290	180,137	1,202,791
Accounts receivable	50,189	3,182	81,497	46,581	854	182,303
Current tax receivable	10,260	260	2,467	-	-	12,987
Investment property	54,809	1,558	-	208,797	127,930	393,094
Investments in associates	-	-	-	-	884,886	884,886
Property, plant and equipment	-	-	-	67,200	67,737	134,937
Intangible assets	-	-	-	548	584,297	584,845
Non-current assets held for sale	-	23,146	-	-	-	23,146
Deferred tax assets	-	-	-	60,911	-	60,911
Total assets	**1,334,087**	**527,719**	**1,432,780**	**1,054,522**	**2,090,166**	**6,439,274**
Customer current accounts	792,082	-	-	-	-	792,082
Customer investment accounts	767,933	117,545	337,417	417,694	295,916	1,936,505
Due to banks	808,158	140,614	400,623	59,614	218,483	1,627,492
Investments from off balance sheet funds	7,849	-	29,442	196,442	-	233,733
Provisions	-	-	18,000	-	55,000	73,000
Non-current liabilities held for sale	3	-	-	-	-	3
Accounts payable	674,148	1,260	36,454	21,067	40,401	773,330
Current tax payable	105	-	798	-	-	903
Deferred tax liabilities	-	-	-	-	4,892	4,892
Total liabilities	**3,050,278**	**259,419**	**822,734**	**694,817**	**614,692**	**5,441,940**
Net liquidity gap	**(1,716,191)**	**268,300**	**610,046**	**359,705**	**1,475,474**	**(997,334)**

At 31 December 2010

	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Total
Total assets	**1,704,864**	**807,792**	**668,675**	**1,136,722**	**2,152,286**	**6,470,339**
Total liabilities	**3,352,757**	**345,835**	**1,139,520**	**392,315**	**152,608**	**5,383,035**
Net liquidity gap	**(1,647,893)**	**461,957**	**(470,845)**	**744,407**	**1,999,678**	**1,087,304**

(Thousands of US dollars)

40. Currency exposure

As at 31 December 2011

	United States Dollar	Pakistan Rupee	Bahrain Dinar	Euro	Swiss Franc	Saudi Riyal	Egyptian Pound	Other	Total
Cash and cash equivalents	139,334	171,149	132,231	278,136	7,966	34,480	324	21,422	785,042
Due from Islamic institutions	126,860	-	-	(6,525)	-	-	179	-	120,514
Trading securities	-	64,552	-	-	-	-	3	-	64,555
Investments in financings	239,532	1,660,891	24,005	58,201	-	5,180	105	1,349	1,989,263
Investment securities	207,679	980,634	3,860	7,202	558	-	2,107	751	1,202,791
Accounts receivable	283,847	(159,763)	8,135	20,746	4,149	1,496	66	23,627	182,303
Current tax receivable	-	6,992	3,237	2,331	388	-	39	-	12,987
Investment property	47,552	8,832	229,569	54,809	49,779	-	912	1,641	393,094
Investments in associates	812,480	734	2,103	-	-	4,073	-	65,496	884,886
Property, plant and equipment	6,513	62,325	65,365	10	624	63	37	-	134,937
Intangible assets	554,851	29,563	-	3	428	-	-	-	584,845
Non-current assets held for sale	-	23,146	-	-	-	-	-	-	23,146
Deferred tax assets	-	60,911	-	-	-	-	-	-	60,911
Total assets	**2,418,648**	**2,909,966**	**468,505**	**414,913**	**63,892**	**45,292**	**3,772**	**114,286**	**6,439,274**
Customer current accounts	78,390	491,836	132,258	65,046	14,360	1,400	-	8,792	792,082
Customer investment accounts	127,280	1,763,839	9,979	14,641	-	-	-	20,766	1,936,505
Due to banks	73,203	443,588	424,802	365,928	292	323	-	319,356	1,627,492
Investments from off balance sheet funds	233,733	-	-	-	-	-	-	-	233,733
Provisions	18,000	-	-	55,000	-	-	-	-	73,000
Non-current liabilities held for sale	-	3	-	-	-	-	-	-	3
Accounts payable	668,905	12,567	82,131	1,107	7,126	145	324	1,025	773,330
Current tax payable	-	105	-	30	757	-	11	-	903
Deferred tax liabilities	-	-	-	-	4,892	-	-	-	4,892
Total liabilities	**1,199,511**	**2,711,938**	**649,170**	**501,752**	**27,427**	**1,868**	**335**	**349,939**	**5,441,940**
Net on-balance sheet position	**1,219,137**	**198,028**	**(180,665)**	**(86,839)**	**36,465**	**43,424**	**3,437**	**(235,653)**	**(997,334)**
Contingent liabilities and commitments	**317,219**	**1,484,776**	**115,467**	**72,467**	**15,862**	**3,958**	**-**	**4,357**	**2,014,106**

At 31 December 2010

	United States Dollar	Pakistan Rupee	Bahrain Dinar	Euro	Swiss Franc	Saudi Riyal	Egyptian Pound	Other	Total
Total assets	2,394,502	2,944,265	524,119	384,451	60,380	42,960	3,929	115,733	6,470,339
Total liabilities	1,183,989	2,649,106	657,974	524,226	12,504	6,454	353	348,429	5,383,035
Net on-balance sheet position	1,210,513	295,159	(133,855)	(139,775)	47,876	36,506	3,576	(232,696)	1,087,304
Contingent liabilities and commitments	302,873	1,377,488	100,999	76,487	15,812	5,561	-	19,170	1,898,390

(Thousands of US dollars)

41. Trust capital

As at 31 December 2011 an amount of $20 million (2010: $125.0 million) has been appropriated from other reserves to fiduciary reserve to cover potential fiduciary risks which might arise in the Group's capacity as fund manager.

42. Acquisitions and disposals

Ithmaar Bank B.S.C.

On 31 March 2010 DMI acquired an additional 400 million shares of Ithmaar Bank B.S.C. by participation in a rights issue at a price of $0.25 per share for a total consideration of $100 million. As a result, DMI's interest in the equity of Ithmaar Bank B.S.C. increased from 44.9% to 52.6% converting it from an associate to a subsidiary (note 14).

At the time of acquisition, Ithmaar Bank B.S.C. owned the following subsidiaries which were included in the consolidated financial statements:

Subsidiary	% owned	Country of incorporation
Faysal Bank Limited	66	Pakistan
Faisal Private Bank (Switzerland) S.A.	100	Switzerland
Faisal Finance (Jersey) Limited	100	Jersey
Cantara (Switzerland) S.A.	100	Switzerland
DMI Administrative Services S.A	100	Switzerland
DMI (Jersey) Limited	100	Jersey
MFAI (Jersey) Limited	100	Jersey
Faisal Finance (Luxembourg) S.A.	100	Luxembourg
Faisal Finance (Netherlands Antilles) NV	100	Netherlands Antilles
Rayten Holdings Limited	100	Jersey
Ithmaar Development Company Limited	100	Cayman Islands
Shamil Finance (Luxembourg) S.A.	100	Luxembourg
City View Real Estate Development Co. B.S.C. (C)	51	Kingdom of Bahrain
Marina Reef Real Estate Development Co. B.S.C. (C)	51	Kingdom of Bahrain
Health Island B.S.C. (C)	50	Kingdom of Bahrain
Sakana Holistic Housing Solutions B.S.C. (C)	63	Kingdom of Bahrain

The details of the purchase consideration given, fair value of the net assets acquired and goodwill arising on the acquisition are as follows:

Fair value of consideration	100,000
Fair value of previously held equity interest	587,125
Less	
100% of identifiable net assets	(1,040,308)
Non-controlling interests	612,007
Goodwill recognised	258,824

(Thousands of US dollars)

42. Acquisitions and disposals (continued)

The details of the assets and liabilities acquired are as follows:

	Acquirees' carrying amount on 31 March 2010	Fair value adjustments/ intangibles recognised	Fair value as at 31 March 2010
Cash and cash equivalents	487,334	-	487,334
Investments	10,666	-	10,666
Trading securities	40,215	-	40,215
Investments in financings	1,804,249	-	1,804,249
Investment securities	838,453	(7,000)	831,453
Investment property	401,056	13,768	414,824
Accounts receivable	217,299	-	217,299
Investments in associate	697,882	(1,678)	696,204
Property, plant and equipment	105,391	(2,300)	103,091
Acquired goodwill & intangibles	255,068	(506)	254,562
Customer related intangible assets	-	8,120	8,120
Core deposit intangible assets	-	5,680	5,680
Other assets	1,537	-	1,537
Massaref accounts	(3,415,216)	-	(3,415,216)
Accounts payable	(424,749)	-	(424,749)
Other liabilities	5,039	-	5,039
Total assets and liabilities acquired	1,024,224	16,084	1,040,308
Non-controlling interests	(226,048)	-	(226,048)
Net identifiable assets	798,176	16,084	814,260

Intangibles acquired in the business combination

Following the purchase price allocation of Ithmaar Bank B.S.C., the following intangible assets were recognised:

Customer relations	8,120
Core deposits	5,680
	13,800
Non-controlling interests	(6,541)
Net intangible assets	7,259

The fair value of these identifiable intangible assets has been determined using an income approach, by an independent valuer. The income approach begins with an estimation of the annual cash flows, which a market participant acquirer would expect the asset to generate over a discrete projection period. The estimated cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the assets' projected cash flows. The present value of the estimated cash flows are then added to the present value equivalent of the residual value of the asset (if any) at the end of the discrete projection period to arrive at an estimate of the fair value of the specific asset.

42. Acquisitions and disposals (continued)

The excess earnings methodology states that the value of an intangible asset is given by the present value of the earnings it generates, net of a reasonable return on other assets also contributing to that stream of earnings.

The valuations are based on information at the time of acquisition and the expectations and assumptions that have been deemed reasonable by the Group's management. It has been assumed that the underlying assumptions or events associated with such assets will occur as projected.

On 30 September 2010, DMI acquired an additional 18,926,276 shares in Ithmaar Bank B.S.C. at a price of $0.31 per share for a total purchase price of $5,867,146, further increasing the equity ownership to 53.28%.

The profit of Ithmaar Bank B.S.C. prior to 31 March 2010, the date of its conversion from an associate to a subsidiary, amounted to $1.6 million which is included in the share of profit/(loss) of associated companies in the consolidated statement of income. The loss of Ithmaar Bank B.S.C. since 31 March 2010 included in the Group's consolidated statement of income for the twelve month period ended 31 December 2010 amounted to $77.5 million, net of non-controlling interests. If the conversion had occurred on 1 January 2010, the consolidated loss after taxes for the twelve months ended 31 December 2010 would have been $73.9 million, net of non-controlling interests.

On 14 April 2010 the Central Bank of Bahrain approved the reorganisation of Ithmaar Bank B.S.C. and its wholly owned subsidiary Shamil Bank of Bahrain B.S.C. into one entity under Ithmaar Bank B.S.C. with an Islamic retail banking license. As a result Shamil Bank has transferred its entire business, assets and liabilities to Ithmaar.

On 30 September 2010 Islamic Investment Company of the Gulf (Bahamas) Limited purchased 100% equity interests in four subsidiaries DMI Jersey Limited, MFAI Jersey Limited, Faisal Finance Jersey Limited and Rayten Limited from Ithmaar Bank B.S.C. for a total consideration of $4.9 million. This transaction from the Group level resulted in the purchase of non-controlling interests in the consolidated financial statements.

Pakistan operations of Royal Bank of Scotland

During 2010, one of the Group's subsidiaries, Faysal Bank Limited (FBL), acquired the Pakistan operations of Royal Bank of Scotland (RBS). FBL acquired the majority shareholding of 99.37% of RBS for cash consideration of approximately €41.0 million on the acquisition date of 15 October 2010 and RBS became a subsidiary of FBL as at the aforementioned date. The remaining 0.63% non-controlling interest was acquired subsequently by FBL through issuance of ordinary shares. Effective 31 December 2010, RBS has been consolidated with FBL.

(Thousands of US dollars)

42. Acquisitions and disposals (continued)

The details of the purchase consideration given, fair value of the net assets acquired and gain on bargain purchase arising on the acquisition are as follows:

Fair value of identifiable net assets of RBS as on 15 October 2010	97,136
Percentage of identifiable net assets acquired	99.37%
Fair value of identifiable net assets of RBS acquired as on 15 October 2010	96,524
Less	
Purchase consideration paid in cash	(58,113)
Gain on bargain purchase	38,411

The details of the assets and liabilities acquired are as follows:

	Acquirees' carrying amount as at 15 October 2010	Fair value adjustments/ intangibles recognised	Fair value as at 15 October 2010
Cash and balances with treasury banks	68,086	-	68,086
Balances with other banks	22,091	-	22,091
Lending to financial institutions	17,586	-	17,586
Investments	341,980	-	341,980
Advances	447,259	(16,483)	430,777
Operating fixed assets (excluding intangibles recognised on business combination)	42,491	1,671	44,162
Intangible assets	377	29,773	30,149
Deferred tax assets - net	33,455	(10,021)	23,434
Other assets - net	26,310	14,407	40,717
Bills payable	(12,842)	-	(12,842)
Borrowings	(48,837)	-	(48,837)
Deposits and other accounts	(782,454)	(187)	(782,641)
Subordinated accounts	(6,973)	27	(6,946)
Other liabilities	(70,581)	-	(70,581)
Net identifiable assets	77,949	19,187	97,136

42. Acquisitions and disposals (continued)

Intangibles acquired in the business combination

Following the purchase price allocation of RBS, the following intangible assets were recognised:

	As at 15 October 2010
Customer relationship	29,773

This intangible asset comprises of core deposits of the RBS and represents the funding benefit that would be available to the Group on account of availability of funding through deposit customers rather than from the wholesale or inter-bank markets. This benefit also considers the fact that the economic lifetime of these deposits is longer than their contractual life. Based on this assumption, this intangible asset has been valued using certain valuation techniques and is being amortised keeping in view the life expectancy of the core deposits.

The fair value of this identifiable intangible asset has been determined using an income approach, by an independent valuer. The income approach begins with an estimation of the annual cash flows, which a market participant acquirer would expect the asset to generate over a discrete projection period. The estimated cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the asset's projected cash flows. The present value of the estimated cash flows are then added to the present value equivalent of the residual value of the asset (if any) at the end of the discrete projection period to arrive at an estimate of the fair value of the specific asset.

In applying the income approach, the Group used the Multiple-period Excess Earnings Method ("MEEM") to determine the value of the above intangibles. Under this method the value of a specific intangible asset is estimated from the residual earnings after fair returns on all other assets employed (including other intangible assets) have been deducted from the asset's after-tax operating earnings.

The valuations are based on information at the time of acquisition and the expectations and assumptions that have been deemed reasonable by the Group's management. It has been assumed that the underlying assumptions or events associated with such assets will occur as projected.

43. Date of authorisation for issue

These consolidated financial statements have been approved for issue by the Board of Supervisors on 3 May 2012 and are subject to approval at the Annual General Meeting, which will be held on 14 June 2012.

44. Principal subsidiaries included in the consolidated financial statements

	% owned		Country of incorporation
	Subsidiary	DMI	
Islamic Investment Company of the Gulf (Bahamas) Limited	100	100	Bahamas
Ithmaar Bank B.S.C.*	53	53	Kingdom of Bahrain
Faysal Bank Limited	67	35	Pakistan
Faisal Private Bank (Switzerland) S.A.	100	53	Switzerland
Faisal Finance (Jersey) Limited	100	100	Jersey
Ithmaar Development Company Limited	100	53	Cayman Islands
Sakana Holistic Housing Solutions B.S.C. (C)	63	33	Kingdom of Bahrain
Cantara (Switzerland) S.A.	100	53	Switzerland
DMI Administrative Services S.A.	100	53	Switzerland

* Ithmaar Bank B.S.C. is subject to the consolidated supervision of the Central Bank of Bahrain.

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