

IMPORTANT NOTICE

THIS BASE PROSPECTUS MAY ONLY BE DISTRIBUTED TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN THE REGULATIONS) AND ARE OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following notice before continuing. The following notice applies to the attached Base Prospectus following this page (the **Base Prospectus**), whether received by email, accessed from an internet page or otherwise received as a result of electronic communication, and you are therefore advised to read this notice carefully before reading, accessing or making any other use of the Base Prospectus. In reading, accessing or making any other use of the Base Prospectus, you agree to be bound by the following terms and conditions and each of the restrictions set out in the Base Prospectus, including any modifications made to them from time to time, each time you receive any information from DB Sukuk Company Ltd. (the **Issuer**) and/or Dubai Bank PJSC (the **Bank**) as a result of such access.

RESTRICTIONS: NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE CERTIFICATES IN THE UNITED STATES OR IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. ANY CERTIFICATE TO BE ISSUED HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OF THE UNITED STATES OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION. THE CERTIFICATES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (**REGULATION S**)) EXCEPT TO A PERSON WHO IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN AN OFFSHORE TRANSACTION PURSUANT TO RULE 903 OR RULE 904 OF REGULATION S, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

WITHIN THE UNITED KINGDOM, THIS BASE PROSPECTUS IS DIRECTED ONLY AT (1) PERSONS (A) WHO HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (THE **FP ORDER**) OR (B) WHO ARE PERSONS FALLING WITHIN ARTICLE 49(2)(a) TO (d) OF THE FP ORDER OR (C) TO WHOM IT MAY OTHERWISE LAWFULLY BE DISTRIBUTED IN ACCORDANCE WITH THE FP ORDER AND (2) PERSONS (A) FALLING WITHIN ONE OF THE CATEGORIES OF INVESTMENT PROFESSIONAL AS DEFINED IN ARTICLE 14(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (PROMOTION OF COLLECTIVE INVESTMENT SCHEMES) (EXEMPTIONS) ORDER 2001 (THE **CIS ORDER**) OR (B) FALLING WITHIN ANY OF THE CATEGORIES OF PERSON DESCRIBED IN ARTICLE 22 (HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS, ETC.) OF THE CIS ORDER OR (C) TO WHOM IT MAY OTHERWISE LAWFULLY BE MADE IN ACCORDANCE WITH THE CIS ORDER (ALL SUCH PERSONS IN (1) AND (2) ABOVE TOGETHER BEING REFERRED TO AS **RELEVANT PERSONS**). THIS BASE PROSPECTUS MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS BASE PROSPECTUS RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. FOR A MORE COMPLETE DESCRIPTION OF RESTRICTIONS ON OFFERS AND SALES, SEE “*SUBSCRIPTION AND SALE*”.

CONFIRMATION OF YOUR REPRESENTATION: In order to be eligible to view the Base Prospectus or make an investment decision with respect to the Certificates described herein, (1) each prospective investor in respect of the Certificates must be a person other than a U.S. Person and (2) each prospective investor in respect of the securities being offered in the United Kingdom must be a Relevant Person. By accepting the e-mail and accessing, reading or making any other use of the attached document, you shall be deemed to have represented to the Managers (as defined in the attached document) that (1) you have understood and agree to the terms set out herein, (2) you are (or the person you represent is) a person other

than a U.S. Person, and that the electronic mail (or e-mail) address to which, pursuant to your request, the attached document has been delivered by electronic transmission is not located in the United States, its territories, its possessions and other areas subject to its jurisdiction; and its **possessions** include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands, (3) in respect of the Certificates being offered in the United Kingdom, you are (or the person you represent is) a Relevant Person, (4) you consent to delivery by electronic transmission, (5) you will not transmit the attached Base Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Managers and (6) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase of any of the Certificates.

You are reminded that the Base Prospectus has been delivered to you on the basis that you are a person into whose possession the Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised, to deliver or disclose the contents of the Base Prospectus, electronically or otherwise, to any other person and in particular to any U.S. Person or to any U.S. address. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

If you received this document by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Managers or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction the offering shall be deemed to be made by the Managers or such affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall the Base Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the attached document who intend to subscribe for or purchase the Certificates are reminded that any subscription or purchase may only be made on the basis of the information contained in the final prospectus.

This Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Managers, the Issuer, the Bank nor any person who controls or is a director, officer, employee or agent of the Managers, the Issuer, the Bank nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Managers.

The distribution of the Base Prospectus in certain jurisdictions may be restricted by law. Persons into whose possession the attached document comes are required by the Managers, the Issuer and the Bank to inform themselves about, and to observe, any such restrictions.

BASE PROSPECTUS



DB SUKUK COMPANY LTD.

(incorporated as an exempted company in the Cayman Islands with limited liability)

US\$5,000,000,000

Trust Certificate Issuance Programme

Under the trust certificate issuance programme described in this Base Prospectus (the **Programme**), DB Sukuk Company Ltd. (in its capacity as issuer, the **Issuer** and, in its capacity as trustee, the **Trustee**), subject to compliance with all relevant laws, regulations and directives, may from time to time issue trust certificates (the **Trust Certificates**) in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Trust Certificates may only be issued in registered form. The maximum aggregate face amount of all Trust Certificates from time to time outstanding under the Programme will not exceed US\$5,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Trust Certificates may be issued on a continuing basis to one or more of the Dealers (each a **Dealer** and together the **Dealers**) specified under "*General Description of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer, which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the **relevant Dealer** shall, in the case of an issue of Trust Certificates being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe to such Trust Certificates.

The Trust Certificates will be limited recourse obligations of the Issuer. An investment in Trust Certificates issued under the Programme involves certain risks. For a discussion of these risks, see "Risk Factors".

Each Series (as defined herein) of Trust Certificates issued under the Programme will be constituted by (i) a master trust deed (the **Master Trust Deed**) dated 24 September 2008 entered into between the Issuer, the Trustee, Dubai Bank PJSC (**Dubai Bank** or the **Bank**) and Deutsche Trustee Company Limited as delegate of the Trustee (in such capacity, the **Delegate**) and (ii) a supplemental trust deed (the **Supplemental Trust Deed**) in relation to the relevant Series. Trust Certificates of each Series confer on the holders of such Trust Certificates from time to time (the **Certificateholders**) the right to receive certain payments (as more particularly described herein) arising from the assets of a trust declared by the Trustee in relation to the relevant Series (the **Trust**) over a co-ownership interest in *Ijara* (leased) assets, *Musharaka* (co-ownership) assets representing interests in leased assets, and other assets that generate periodic income and that are not classified as debt for *Sharia* purposes (for the purposes of the foregoing, "debt" includes, but is not limited to, *Murabaha* and *Istisna'a* assets). Such assets must be *Sharia*-compliant assets that are originated, held or owned by the Bank and include the income generated therefrom and any agreements or documents in relation thereto (together with any other assets in the relevant Trust, the **Trust Assets** for the relevant Series).

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for Trust Certificates issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Trust Certificates to be admitted to trading on the London Stock Exchange's regulated market.

Application has also been made for Trust Certificates issued under the Programme during a period of 12 months after the date hereof to be listed on the primary exchange and to be admitted to the Official List of Securities of the Dubai International Financial Exchange (**DIFX**) but there can be no assurance that any such listing will occur on or prior to the date of issue of the relevant Trust Certificates or at all. There will be no application for admission to trading of the Certificates on the DIFX. The Certificates will be traded "over-the-counter" and cleared and settled through Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) **The DIFX takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance on any part of the contents of this document.**

This Base Prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (**DFSA**). It is intended for distribution only to persons of a type specified in those rules and it must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Base Prospectus nor taken any steps to verify the information in it and has no responsibility for it. The Trust Certificates to which this Base Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Trust Certificates offered should conduct their own due diligence on the Trust Certificates. If prospective purchasers of the Trust Certificates do not understand the contents of this Base Prospectus, an authorised financial adviser should be consulted.

References in this Base Prospectus to Trust Certificates being **listed** (and all related references) shall mean that such Trust Certificates have been admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**).

Notice of the aggregate face amount of Trust Certificates and any other terms and conditions not contained herein which are applicable to each Series of Trust Certificates will be set out in a final terms (the **Final Terms**) which, with respect to Trust Certificates to be listed on the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange.

The Programme provides that Trust Certificates may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Trust Certificates and/or Trust Certificates not admitted to trading on any market.

The Issuer may agree with any Dealer that Trust Certificates may be issued with terms and conditions not contemplated by the Terms and Conditions of the Trust Certificates herein, in which event a supplemental Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Trust Certificates.

The Trust Certificates may only be offered, sold or transferred in registered form in minimum denominations of US\$100,000 and integral multiples of US\$1,000 in excess thereof and as such will qualify as Restricted Securities within the meaning of the Listing Rules of the DIFX. Persons to whose possession this Prospectus or any Trust Certificates may come must inform themselves about the nature of this certificate as a restricted security, and observe any applicable restrictions in any relevant jurisdiction on the distribution of this Prospectus and the offering, purchase and sale of the Trust Certificates.

Arrangers

Standard Chartered Bank

UBS Investment Bank

Dealers

Citi
Morgan Stanley

HSBC
SHUAA Capital

The date of this Base Prospectus is 24 September 2008.

This Base Prospectus (the **Base Prospectus**) comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the **Prospectus Directive**).

The Issuer and the Bank accept responsibility for the information contained in this Base Prospectus. To the best of the knowledge of each of the Issuer and the Bank (each having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus should be read and construed together with any amendments or supplements hereto and with any other documents incorporated by reference herein and, in relation to any Series of Trust Certificates, should be read and construed together with the applicable Final Terms.

Copies of Final Terms will be available from the registered office of the Issuer and the specified office set out below of the Principal Paying Agent (as defined below) save that, if the relevant Trust Certificates are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Certificateholder holding one or more Trust Certificates and such Certificateholder must produce evidence satisfactory to the Issuer or, as the case may be, the Principal Paying Agent as to its holding of such Trust Certificates and identity.

Information contained in “*The UAE Banking System and Prudential Regulation*” has been extracted from independent, third party sources. Each of the Issuer and the Bank confirms that such information has been accurately reproduced and that, as far as it is aware and is able to ascertain from information published by the relevant third party sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Dealers and the Delegate have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers and the Delegate as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Issuer and the Bank in connection with the Programme. No Dealer nor the Delegate accepts any liability in relation to the information contained in this Base Prospectus or any other information provided by the Issuer and the Bank in connection with the Programme.

No person is or has been authorised by the Issuer and the Bank to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Trust Certificates and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Bank, the Trustee, the Delegate or any of the Dealers.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Trust Certificates (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the Bank, the Trustee, the Delegate or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Trust Certificates should purchase any Trust Certificates. Each investor contemplating purchasing any Trust Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Bank. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Trust Certificates constitutes an offer or invitation by or on behalf of the Issuer, the Bank, the Trustee, the Delegate or any of the Dealers to any person to subscribe for or to purchase any Trust Certificates.

No comment is made or advice given by the Issuer, the Bank, the Trustee, the Delegate or the Dealers in respect of taxation matters relating to any Trust Certificates or the legality of the purchase of Trust Certificates by an investor under applicable or similar laws.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX ADVISER, LEGAL ADVISER AND BUSINESS ADVISER AS TO TAX, LEGAL, BUSINESS AND RELATED MATTERS CONCERNING THE PURCHASE OF TRUST CERTIFICATES.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Trust Certificates shall in any circumstances imply that the information contained herein concerning the Issuer or the Bank is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Delegate and the Dealers expressly do not undertake to review the financial condition or affairs of the Issuer or the Bank during the life of the Programme or to advise any investor in the Trust Certificates of any information coming to their attention.

The Trust Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**). Subject to certain exceptions, Trust Certificates may not be offered, sold or delivered within the United States or to U.S. persons, see “*Subscription and Sale*”.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Trust Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Trust Certificates may be restricted by law in certain jurisdictions. The Issuer, the Bank, the Trustee, the Delegate and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Trust Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Bank, the Trustee, the Delegate or the Dealers which is intended to permit a public offering of any Trust Certificates or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Trust Certificates may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Trust Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Trust Certificates. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Trust Certificates in the United States, the European Economic Area (including the United Kingdom), the United Arab Emirates, the Kingdom of Saudi Arabia, the Kingdom of Bahrain, Dubai International Financial Centre, Kuwait, Malaysia, the State of Qatar and the Cayman Islands, see “*Subscription and Sale*”.

This Base Prospectus includes forward-looking statements made on behalf of the Bank. All statements other than statements of historical facts included in this Base Prospectus may constitute forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “continue” or similar terminology. Although the Bank believes that the expectations reflected in its forward-looking statements are reasonable at this time, there can be no assurance that these expectations will prove to be correct.

All references in this document to **US dollars**, **US\$** and **\$** are to the lawful currency of the United States of America, references to **£** and **Sterling** are to the lawful currency of the United Kingdom and references to **AED** and **UAE dirham** are to the lawful currency of the United Arab Emirates. The UAE dirham has been pegged to the US dollar since 22 November 1980. The mid point between the official buying and selling rates for the UAE dirham is at a fixed rate of AED3.6725 = US\$1.00 and all US dollar amounts in this document have been translated at this rate. All references to **euro** and **€** refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended. In addition, all references in this document to **Dubai** are to the Emirate of Dubai and to the **UAE** are to the United Arab Emirates.

NOTICE TO UK RESIDENTS

The Trust Certificates represent interests in a collective investment scheme (as defined in the Financial Services and Markets Act 2000 (the FSMA)) which has not been authorised, recognised or otherwise approved by the Financial Services Authority. Accordingly, this Base Prospectus is not being distributed to, and must not be passed on to, the general public in the United Kingdom.

The distribution in the United Kingdom of this Base Prospectus, any Final Terms and any other marketing materials relating to the Trust Certificates (A) if effected by a person who is not an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Financial Promotion Order) and (ii) persons falling within any of the categories of persons described in Article 49 (High net worth companies, unincorporated associations, etc) of the Financial Promotion Order and (B) if effected by a person who is an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the Promotion of CISs Order), (ii) persons falling within any of the categories of person described in Article 22 (High net worth companies, unincorporated associations, etc.) of the Promotion of CISs Order and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Promotion of CISs Order. Persons of any other description in the United Kingdom may not receive and should not act or rely on this Base Prospectus, any Final Terms or any other marketing materials in relation to the Trust Certificates.

Potential investors in the United Kingdom are advised that all, or most, of the protections afforded by the United Kingdom regulatory system will not apply to an investment in the Trust Certificates and that compensation will not be available under the United Kingdom Financial Services Compensation Scheme.

Any individual intending to invest in any investment described in this Base Prospectus should consult his professional adviser and ensure that he fully understands all the risks associated with making such an investment and that he has sufficient financial resources to sustain any loss that may arise from such investment.

KINGDOM OF SAUDI ARABIA NOTICE

This document may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the Capital Market Authority).

The Capital Market Authority does not make any representations as to the accuracy or completeness of this document, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document. Prospective purchasers of the securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If a prospective purchaser does not understand the contents of this document he or she should consult an authorised financial adviser.

CAYMAN ISLANDS NOTICE

No invitation may be made to any member of the public of the Cayman Islands to subscribe for the Trust Certificates.

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RISK FACTORS

Each of the Issuer and the Bank believes that the factors described below represent the principal risks inherent in investing in the Trust Certificates issued under the Programme, but the inability of the Issuer to pay any amounts on or in connection with any Trust Certificate may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to them or which they may not currently be able to anticipate.

Although the Issuer and the Bank believe that the various structural elements described in this Base Prospectus lessen some of these risks for Certificateholders, there can be no assurance that these measures will be sufficient to ensure payment to Certificateholders of any Periodic Distribution Amount or any Dissolution Amount in respect of the Trust Certificates of any Series on a timely basis or at all.

Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision. Words and expressions defined in “*Form of the Trust Certificates*” and “*Terms and Conditions of the Trust Certificates*” shall have the same meanings in this section.

Risk factors relating to the Issuer

At the date of this Base Prospectus, the Issuer is a newly-established exempted company with limited liability incorporated under the laws of the Cayman Islands on 8 April 2008 and has no operating history. The Issuer will not engage in any business activity other than the issuance of Trust Certificates under the Programme, the acquisition of the Trust Assets as described herein, acting in this capacity as Trustee, the issuance of shares in its capital and other activities incidental or related to the foregoing as required under the Transaction Documents. As the Issuer is a Cayman Islands company, it may not be possible for Certificateholders to effect service of process outside of the Cayman Islands.

The Issuer’s only material assets, which will be held on trust for Certificateholders, will be the Trust Assets relating to each Series of Trust Certificates, including the obligation of the Bank to make payments under the Management Agreement and the Purchase Undertaking or the Sale Undertaking, as the case may be, to the Issuer.

The ability of the Issuer to pay amounts due on the Trust Certificates will primarily be dependent upon receipt by the Issuer from the Bank of all amounts due under the Management Agreement and the Purchase Undertaking or the Sale Undertaking, as the case may be, (which in aggregate may not be sufficient to meet all claims under the Trust Certificates and the Transaction Documents).

Risk factors relating to the Bank

Credit risks

Credit risks arising from adverse changes in the credit quality and recoverability of financing assets, advances and amounts due from counterparties are inherent in a wide range of the Bank’s businesses. See “*Description of Dubai Bank PJSC – Risk Management*” for a description of the Bank’s exposure to credit risks. Credit risks could arise from a deterioration in the credit quality of specific counterparties of the Bank, from a general deterioration in local or global economic conditions or from systemic risks with the financial systems, all of which could affect the recoverability and value of the Bank’s assets and require an increase in the Bank’s provisions for the impairment of its assets and other credit exposures which could have an adverse effect on the Bank’s business, financial condition, results of operations or prospects.

Operational risks

Operational risks and losses can result from fraud, error by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, the failure of internal systems, equipment and external systems (for example, those of the Bank’s counterparties or vendors) or the occurrence of natural disasters. See “*Description of Dubai*

Bank PJSC – Risk Management” for a description of the Bank’s exposure to operational risks. Although the Bank has implemented risk controls and loss mitigation strategies and substantial resources are devoted to developing efficient procedures, it is not possible to entirely eliminate any of the operational risks. Accordingly, there is no assurance that the Bank will not experience significant lapses in legal and/or operational controls in the future and any such lapses could have an adverse effect on the Bank’s business, financial condition, results of operations or prospects. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Issuer will be unable to comply with its obligations as a company with securities admitted to the Official List.

Liquidity risks

Liquidity risks could arise from the inability of the Bank to anticipate and provide for unforeseen decreases or changes in funding sources which could have adverse consequences on the Bank’s ability to meet its obligations when they fall due. As is the normal practice in the UAE banking industry, the Bank accepts deposits from its customers which are short-term in nature (of its AED 12.86 billion in customer deposits at 30 June 2008, 96.4 per cent. had contractual maturities of less than 3 months). However, it is also normal in the UAE banking industry for these short-term deposits to be rolled over on their maturity such that, in practice, a significant portion of them have actual maturities of rather longer duration. By contrast, the Bank’s advances have more diversified maturities (of its AED 11.96 billion in customer advances at 30 June 2008, only 40.5 per cent. had contractual maturities of less than 3 months). See “*Description of Dubai Bank PJSC – Risk Management*” for a description of the Bank’s exposure to liquidity risks. Accordingly, there is a risk that if a significant number of the Bank’s customers did not choose to roll over their deposits at any time the Bank could experience difficulties in repaying those deposits. In addition, the Bank only has limited *Sharia*-compliant products that could be used for short-term liquidity management. To address these risks, the Bank monitors its liquidity position on a daily basis and is proactive in confirming with its large depositors their intentions in relation to maturing deposits. It also maintains liquid assets at prudent levels to ensure that cash can quickly be made available to honour its obligations, even under adverse conditions. To further address liquidity risk, the Bank’s management is seeking to diversify the Bank’s funding sources in terms of origin and tenor. In addition, the Bank maintains a statutory deposit with the UAE Central Bank and has a range of uncommitted credit lines from banks and financial institutions.

There is, accordingly, no assurance that the Bank will not experience significant liquidity constraints in the future and any such constraints could have an adverse effect on the Bank’s business, financial condition, results of operations or prospects.

Foreign exchange movements may adversely affect the Bank’s profitability

The Bank maintains its accounts and reports its results in AED. The UAE dirham, along with the currencies of most of the other Gulf Co-operation Council (GCC) countries (comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE), is pegged at a fixed exchange rate to the U.S. dollar. In the case of the UAE, this currency peg has existed since 22 November 1980, however there has been recent market speculation that certain member countries of the GCC might abandon their currency peg, although to date only Kuwait has dropped its peg to the dollar in favour of a peg against a basket of currencies. The Bank is exposed to the potential impact of any alteration to or abolition of this foreign exchange peg which could have an adverse effect on the Bank’s business, financial condition, results of operations or prospects.

Majority of business in the UAE

The Bank has all its operations and the majority of its assets in the UAE and accordingly its business may be affected by the financial, political and general economic conditions prevailing from time to time in the UAE and/or the Middle East generally.

These markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is

appropriate. Generally, investment is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

Political, economic and related considerations

The UAE has seen significant economic growth and relative political stability. There can be no assurance that such growth or stability will continue. Moreover, while the UAE's federal government policies have generally resulted in improved economic performance, there can be no assurance that such level of performance can be sustained. The Bank may also be adversely affected generally by political and economic developments in or affecting the UAE.

No assurance can be given that the UAE government will not implement regulations or fiscal or monetary policies, including policies or new regulations or new legal interpretations of existing regulations or exchange controls, or otherwise take actions which could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects or which could adversely affect the market price and liquidity of the Trust Certificates.

The Bank may be affected if there are regional, political or economic events that prevent the Bank from delivering its services. It is not possible to predict the occurrence of such events or circumstances or the impact of such occurrences and no assurance can be given that the Bank would be able to fulfil its obligations if such events or circumstances were to occur. A general UAE economic downturn or instability in certain sectors of the UAE or regional economy could have an adverse effect on the Bank's business, financial condition, results of operations or prospects.

Competition

There are an increasing number of Islamic banks and other institutions offering Islamic financial products and services within the UAE. To date there are seven operational Islamic banks and a number of financial institutions offering Islamic products and solutions. Other financial institutions may consider offering *Sharia*-compliant products.

The banking market in the UAE has generally been a relatively protected market with high regulatory and other barriers to entry for foreign financial institutions. However, should some of these barriers be removed or eased in the future, either voluntarily or as a result of World Trade Organisation, Gulf Cooperation Council or other obligations on the part of the UAE, it is likely to lead to a more competitive environment for the Bank and other domestic financial institutions.

The Bank's financial performance is affected by general economic conditions

Risks arising from changes in credit quality and the recoverability of amounts due from customers and counterparties are inherent in banking businesses. Adverse changes in global economic conditions, or arising from systemic risks in the financial systems, could affect the recovery and value of the Bank's assets and require an increase in the Bank's provisions. The Bank uses different strategies to reduce the credit risk level so that it falls within the Bank's strategy and risk appetite. However, there can be no guarantee that such measures will eliminate or reduce such risks.

Principal shareholder

As at the date of this Base Prospectus, the Bank's principal beneficial shareholders were Dubai Group LLC (holding 70 per cent. of the Bank's share capital and which is owned as to 99.67 per cent. by Sheikh Mohammed bin Rashid Al Maktoum the Vice President and Prime Minister of the UAE and the Ruler of Dubai) and Emaar Properties PJSC (holding 30 per cent. of the Bank's share capital). By virtue of its shareholding, Dubai Group LLC has the ability to influence the Bank's business significantly through its ability to control actions that require shareholder approval. If circumstances were to arise where the interests of the major shareholders conflict with the interests of the Certificateholders, the Certificateholders could be disadvantaged by any such conflict.

Ability to attract qualified and experienced employees

During 2006, the Bank underwent a fundamental management change with the appointment of a new CEO and Board, each with substantial Islamic finance backgrounds, as part of the transition to an Islamic bank. As part of this process, six senior managers resigned during 2006. During 2007, there was one resignation within the executive management team, namely that of the Head of Treasury and Investment Services. While the Bank does not envisage any significant changes in the Bank's senior management team in the next 12 months, if the Bank is unable to retain experienced, capable and reliable personnel, especially senior and executive management with appropriate professional qualifications, or fails to recruit appropriate professional staff in pace with its growth, its business and financial results may suffer.

Experienced and capable personnel in the banking sector are in high demand, and there is continual competition for their talents. In particular, because of the significant growth in the Islamic banking sector over the past five years, there is a sector-wide shortage of qualified staff. Consequently, when talented employees leave, the Bank may have difficulty, and incur additional costs, replacing them. The loss of any member of the Bank's senior management team or any of its managers may result in: (i) a loss of organisational focus; (ii) poor execution of operations; and (iii) an inability to identify and execute potential strategic initiatives such as sectoral and/or geographic acquisitions. These adverse results could, among other things, reduce potential revenue, which could adversely affect the Bank's business, results of operations, financial condition and prospectus.

Growth management

With effect from 1 January 2007, the Bank was converted from a conventional commercial bank to an Islamic bank carrying out its business in compliance with *Sharia* rules and regulations. The Bank's revenue in the last three years has increased from AED 269.9 million (USD 73.5 million) for the year ended 31 December, 2005 to AED 437.8 million (USD 119.2 million) for the year ended 31 December 2007, principally due to the new senior management team with a clear strategic direction, conversion to an Islamic Bank and the launch of a number of *Sharia*-compliant products.

The Bank's growth strategy is predicated on organic growth opportunities (including those resulting from the increased consumer demand for Islamic banking services and *Sharia*-compliant banking products), supplemented by strategic sectoral and/or geographic acquisitions, if management identifies appropriate opportunities. The Bank does not have a history of operating as an Islamic bank and the continued growth of its business creates a number of challenges and risks. In addition, due to the Bank's lack of operating history as an Islamic bank, its historical financial and operating data are not directly comparable.

The Bank cannot give any assurance that its recent rate of growth will be maintained in the future. A failure on the Bank's part to manage its future growth efficiently and effectively could have a material adverse effect on its business, financial condition, results of operations or prospects.

Unavailability of conventional hedging instruments under Sharia law

The Bank's status as an Islamic bank means that its assets and liabilities are not fully comparable to those of a conventional bank. In particular, unlike conventional banks, the Bank does not have the full range of hedging products. The fact that the return payable on the Bank's Islamic products is profit linked reduces to some extent the risk of losses arising on unhedged liabilities and, in addition, there is a growing range of *Sharia*-compliant derivative products which could be used for hedging purposes. However, there can be no assurances that the limited availability of hedging products will not have an adverse effect on the Bank's business, financial condition, results of operations or prospects.

Concentrations of the Bank's finance and deposit portfolio subject it to risks from default by its larger borrowers, from exposure to particular sectors of the UAE economy and withdrawal of large deposits.

The Bank's finance portfolio shows industry and borrower concentration. Financing to the Bank's 10 largest borrowers (three of which were members of the Bank's shareholder group) represented 53.1 per cent. of the Bank's gross finance portfolio as at 30 June 2008.

As at 30 June 2008, the Bank's exposure to its single largest borrower was AED 2.21 billion, which constituted 18.4 per cent. of the Bank's gross finance portfolio and 120.2 per cent. of its regulatory capital, as at such date.

In terms of industry concentration, as at 30 June 2008, construction and real estate, trade and manufacturing, government and personal finance accounted for 18.7 per cent., 9.8 per cent., 12.6 per cent. and 25.3 per cent., respectively, of the Bank's gross finance portfolio.

The Bank's 10 largest depositors (one of which were members of the Bank's shareholder group) accounted for some 55.0 per cent. of amounts due to customers as at 30 June 2008, which included the government (29.4 per cent.) and group companies (16.3 per cent.). Although the Bank considers that it has adequate access to sources of funding, the withdrawal of a significant portion of these large deposits may have an adverse effect on the Bank's financial condition or results of operations.

A downturn in any of these companies, or in the sectors in which they operate, could have a material adverse effect on the Bank's financial condition or results of operations.

Risk factors relating to the Trust Certificates

Absence of secondary market/limited liquidity

There is no assurance that a market for the Trust Certificates of any Series will develop or, if it does develop, that it will continue for the life of such Trust Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Trust Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of the Trust Certificates may fluctuate and a lack of liquidity, in particular, can have a severe adverse effect on the market value of the Trust Certificates. Accordingly, the purchase of the Trust Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Trust Certificates and the financial and other risks associated with an investment in the Trust Certificates.

The Trust Certificates are limited recourse obligations

Recourse to the Issuer in respect of each Series of Trust Certificates is limited to the Trust Assets of that Series and proceeds of such Trust Assets are the sole source of payments on the relevant Trust Certificates. Upon occurrence of a Dissolution Event, or early dissolution pursuant to Conditions 11.2, 11.3 or 11.4, the sole rights of each of the Issuer, the Trustee, the Delegate and the Certificateholders of the relevant Series of Trust Certificates will be against the Bank to pay the exercise price in respect of such Series and otherwise perform its obligations under the Transaction Documents. Certificateholders will otherwise have no recourse to any assets of the Trustee, the Delegate, the Bank, the relevant Dealer, the Issuer and the Principal Paying Agent or any affiliate of any of the foregoing entities in respect of any shortfall in the expected amounts due under the relevant Trust Assets. The Bank is obliged to make certain payments under the Transaction Documents directly to the Issuer, and the Trustee and the Delegate will have direct recourse against the Bank to recover payments due to the Issuer from the Bank pursuant to the Transaction Documents. There can be no assurance that the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets will be sufficient to make all payments due in respect of the Trust Certificates of the relevant Series. Furthermore, under no circumstances shall any Certificateholder, the Trustee or the Delegate have any right to cause the sale or other disposition of any of the Trust Assets except pursuant to the Purchase Undertaking and the sole right of the Trustee, the Delegate and the Certificateholders against the Bank shall be to enforce the obligation of the Bank to pay the relevant exercise price under the Purchase Undertaking and otherwise perform its obligations under the Transaction Documents.

Risk factors relating to the Income Generating Assets

Liability attaching to owners of assets

In order to comply with the requirements of *Sharia*, a co-ownership interest in the Income Generating Assets of each Series will pass to the Issuer in its capacity as trustee under the Master Purchase Agreement and the

relevant Supplemental Purchase Contract. The Trustee will declare a trust in respect of its co-ownership interest in such Income Generating Assets and the other Trust Assets of the relevant Series in favour of the Certificateholders of such Series pursuant to a Supplemental Trust Deed constituting the Series. Accordingly, Certificateholders will have beneficial co-ownership interests in the relevant Income Generating Assets unless transfer of the Income Generating Assets is prohibited by, or ineffective under, any applicable law (see *“Transfer of the Income Generating Assets”* below).

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Income Generating Assets. Only limited representations will be obtained from the Bank in respect of the Income Generating Assets of any Series. In particular, the precise terms of the Income Generating Assets or the nature of the assets leased, sold or held will not be known (including whether there are any restrictions on transfer or any further obligations required to be performed by the Bank to give effect to the transfer of the co-ownership interest in the relevant Income Generating Assets). No steps will be taken to perfect any transfer of the co-ownership interest in the relevant Income Generating Assets or otherwise give notice to any lessee or obligor in respect thereof. Obligors and lessees may have rights of set off or counterclaim against the Bank in respect of such Income Generating Assets.

In addition, if and to the extent that a third party is able to establish a direct claim against the Issuer, the Trustee or any Certificateholders on the basis of a legal or beneficial ownership in the Income Generating Assets, the Bank has agreed in the Master Trust Deed to indemnify the Issuer, the Trustee, the Delegate and the Certificateholders against any such liabilities. In the event that the Bank is unable to meet any such claims then the Certificateholders may suffer losses in excess of the original face amount invested.

Transfer of the Income Generating Assets

No investigation has been or will be made as to whether any interest in any Income Generating Assets may be transferred as a matter of the law governing the contracts, the law of the jurisdiction where such assets are located or any other relevant law. No investigation will be made to determine if the Master Purchase Agreement, together with the relevant Supplemental Purchase Contract, will have the effect of transferring a co-ownership interest in the Income Generating Assets of the relevant Series of Trust Certificates. The Master Purchase Agreement is, and each Supplemental Purchase Contract will be, governed by UAE law and, to the extent that such laws are applied in relation to any dispute, there are doubts whether a co-ownership interest in certain assets (in particular those assets which are real estate based) can be effectively transferred without registration of the transfer with appropriate authorities. Accordingly, no assurance is given that any co-ownership interest in the relevant Income Generating Assets has been or will be transferred to the Issuer.

The Bank has agreed in the Purchase Undertaking to indemnify the Issuer for the purposes of redemption in full of the outstanding Trust Certificates of the relevant Series in the event that any transfer of a co-ownership interest is found to be ineffective. In addition, the Bank has agreed in the Purchase Undertaking that, to the extent that the sale and purchase or transfer of any co-ownership interest in any Income Generating Assets is not effective in any jurisdiction for any reason, it will in consideration for the payment to the Bank by the Issuer of the purchase price for that co-ownership interest make payment of an amount equal to the purchase price by way of restitution to the Issuer immediately upon request.

In the event that the Income Generating Assets of any Series of Trust Certificates are not repurchased by the Bank for any reason, the Delegate will seek to enforce the above provisions of the Purchase Undertaking. To the extent that it obtains an English judgment or an arbitration award in its favour, it may seek to enforce that judgment or award in a Dubai court.

It is likely that, in any action heard by them, the courts of Dubai (if they do not simply enforce the judgment or arbitral award – see *“Enforcing foreign judgments in Dubai”*) would review the transaction as a whole and seek to uphold the intention of the parties to treat the arrangements as a financing transaction on the terms agreed, subject to the rights of any third party creditors of the Bank that may exist at the relevant time.

UAE law allows the contracting parties to prove that their intention is different to that expressed in the contract. A UAE court’s right to re-characterise a transaction as a finance transaction is subject to the rights

of any third parties not being prejudiced. A third party creditor of Dubai Bank may, if acting in good faith, challenge the re-characterisation of the transaction as stated above and claim that the transaction should be treated as a sale and purchase of assets. If successful, the transfer of title under the Master Purchase Agreement, together with each Supplemental Purchase Contract, and the transactions contemplated thereunder may be declared void. Accordingly, Dubai Bank would be required to return the purchase price it received for those assets (i.e. the face amount of the Certificates of a Series) to investors less any amounts already paid to investors in respect of those assets (i.e. Periodic Distribution Amounts paid under the Certificates of a Series). As a result, in this particular situation, investors may not receive back the full amount of their investment.

Risk factors relating to payments

Periodic Distribution Amount

To the extent not invested in Income Generating Assets, the proceeds of each Series will be invested in the ordinary banking business of Dubai Bank PJSC. It is expected that the returns on the Income Generating Assets of each Series and the investment described above will exceed the relevant Periodic Distribution Amount due in respect of such Series. There is no assurance, however, that such returns will be sufficient to pay Periodic Distribution Amounts in respect of any Series of Trust Certificates. Any failure to pay the Periodic Distribution Amount due on a Periodic Distribution Date could constitute a Dissolution Event in respect of the relevant Series of Trust Certificates and, if such Series is not redeemed in accordance with its terms, each other Series of Trust Certificates.

Credit risk

The Issuer will fund the redemption amount payable by it in respect of each Series of Trust Certificates with (i) the exercise price paid to it by the Bank under the Purchase Undertaking or the Sale Undertaking, as the case may be, see “*Summary of the Principal Transaction Documents – Purchase Undertaking*” and “*Summary of the Principal Transaction Documents – Sale Undertaking*” and (ii) the repayment of the investment made under the Investment Management Agreement to the extent not utilised in purchasing a co-ownership interest Income Generating Assets in accordance with the terms of that Agreement.

Risk factors relating to taxation

Taxation risks on payments

Payments made by the Bank to the Issuer under the Transaction Documents or by the Issuer in respect of the Trust Certificates could become subject to taxation. The Management Agreement, the Investment Management Agreement and the Purchase Undertaking each require the Bank to pay additional amounts in the event that any withholding or deduction is required by UAE law to be made in respect of payments made by it to the Issuer under those documents. Condition 12 provides that the Issuer is required to pay additional amounts in respect of any such withholdings or deductions imposed by the Cayman Islands in certain circumstances. In the event that the Issuer fails to gross-up for any such withholding or deduction on payments due in respect of the Trust Certificates to Certificateholders, the Bank has, pursuant to the Master Trust Deed, unconditionally and irrevocably undertaken (irrespective of the payment of any fee), as a continuing obligation, to pay to the Issuer (for the benefit of the Certificateholders) an amount equal to the liabilities of the Issuer in respect of any and all additional amounts required to be paid in respect of the Trust Certificates pursuant to Condition 12 in respect of any withholding or deduction in respect of any tax as set out in that Condition.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States of the European Economic Area (each a **Member State**) are required, to provide to the tax authorities of another Member State details of certain payments paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required

(unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Trust Certificate as a result of the imposition of such withholding tax. In such a case, the Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Risk factors relating to enforcement

UAE bankruptcy law

In the event of the Bank's insolvency, UAE bankruptcy law may adversely affect the Bank's ability to perform its obligations under the Transaction Documents to which it is a party and, consequently, the Issuer's ability to make payments to Certificateholders. There is little precedent to predict how a claim on behalf of Certificateholders against the Bank upon its insolvency would be resolved.

Change of law

The structure of the issue of the Trust Certificates under the Programme is based on English law, UAE law and administrative practices in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible change to English law, UAE law or administrative practices after the date of this Base Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Trust Certificates to be issued under the Programme or of the Bank to comply with its obligations under the Transaction Documents to which it is a party.

Enforcing foreign judgments in Dubai

Under the Conditions of the Trust Certificates, any dispute arising from the Trust Certificates may be referred to arbitration in Paris under the rules of arbitration of the LCIA (formerly known as The London Court of International Arbitration). The New York Convention entered into force in the UAE on 19 November, 2006. However, the UAE and France signed a bilateral convention for the mutual enforcement of arbitration awards in 1991, which was ratified by the UAE in 1992. The provisions of the New York Convention are stated not to affect the validity of any bilateral enforcement convention, nor to deprive a party of any right they may have under such a convention. The UAE courts should therefore give precedence to the provisions of the bilateral enforcement treaty over the provisions of the New York Convention, but this has yet to be tested in the UAE. Any arbitration award rendered in Paris should therefore be enforceable in the UAE in accordance with the terms of the bilateral convention. The bilateral enforcement treaty between the UAE and France contains broadly similar conditions for enforcement to those under the New York Convention, i.e. UAE courts should recognise and enforce French arbitration awards if the other requirements of the bilateral convention between the UAE and France are met.

Under the Conditions of the Trust Certificates, any dispute may also be referred to the courts in England (who shall have exclusive jurisdiction) to settle any dispute arising from the Trust Certificates. Under current UAE federal law, the Dubai courts are unlikely to enforce an English judgment without re-examining the merits of the claim and may not observe the choice by the parties of English law as the governing law of any Transaction Document. In addition, even if English law is accepted as the governing law, this will only be applied to the extent that it is compatible with the laws of the Emirate of Dubai and UAE law and public policy. This may mean that the Dubai courts may seek to interpret English law governed documents as if governed by UAE law and there can therefore be no certainty that in those circumstances the Dubai courts would give effect to such documents in the same manner as the parties may intend.

However, in the event that enforcement is sought for a judgment obtained pursuant to an English law governed document or an action is brought under an English law governed document in the UAE and the UAE court does not agree to enforce the judgment and/or give effect to the choice of law, it is likely that UAE court would review the transaction as a whole and seek to uphold the intention of the parties to treat the arrangements between the parties as a financing transaction on the terms agreed (subject to any third party interests that may exist).

Judicial precedent in the United Arab Emirates has no binding effect on subsequent decisions. In addition, there is no formal system of reporting court decisions in the United Arab Emirates. These factors create greater judicial uncertainty.

Claims for specific enforcement

In the event that the Bank fails to perform its obligations under any Transaction Document to which it is a party, the potential remedies available to the Trustee and the Delegate include obtaining an order for specific enforcement of the relevant obligations or a claim for damages. There is no assurance that a court will provide an order for specific enforcement which is a discretionary matter.

The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors including an obligation on the Trustee and the Delegate to mitigate any loss arising as a result of the breach. No assurance is provided on the level of damages which a court may award in the event of a failure by the Bank to perform its obligations as set out in the Transaction Documents to which it is a party.

Additional risks

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Trust Certificates. The ratings may not reflect the potential impact of all risks related to the transaction structure, the market, the additional factors discussed above or any other factors that may affect the value of the Trust Certificates. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Suitability of investments

The Trust Certificates may not be a suitable investment for all investors. Each potential investor in Trust Certificates must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Trust Certificates, the merits and risks of investing in the Trust Certificates and the information contained in this Base Prospectus;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Trust Certificates and the impact the Trust Certificates will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Trust Certificates, including where the currency of payment is different from the potential investor's currency;
- (d) understand thoroughly the terms of the Trust Certificates and be familiar with the behaviour of any relevant indices and financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

Trust Certificates subject to early dissolution by the Issuer

An early dissolution feature of any Trust Certificate is likely to limit its market value. During any period when the Issuer may elect to dissolve Trust Certificates, the market value of those Trust Certificates generally will not rise substantially above the dissolution amount payable. This also may be true prior to any dissolution period.

Emerging markets

Investors in emerging markets should be aware that these markets are subject to greater risks than more developed markets, including, in some cases, significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

There is no assurance that the Trust Certificates will be Sharia-compliant

Dubai Bank's Sharia Advisory Board has confirmed that, in its view, the structure and mechanism described in the Transaction Documents are in compliance with *Sharia* principles. However, there can be no assurance as to the *Sharia* permissibility of the structure or the issue and the trading of any Trust Certificates issued under the Programme and none of the Issuer, the Bank nor the Arrangers make any representation as to the same. Investors are reminded that, as with any *Sharia* views, differences in opinion are possible. Investors should obtain their own independent *Sharia* advice as to the *Sharia* permissibility of the structure of the Transaction Documents and the issue and trading of any Trust Certificates issued under the Programme. Certificateholders should also be aware that the principles of *Sharia*, particularly in relation to financial instruments, are developing rapidly and there can be no assurance that, in respect of any Series of Trust Certificates issued under the Programme, the views as to *Sharia* compliance may not have changed.

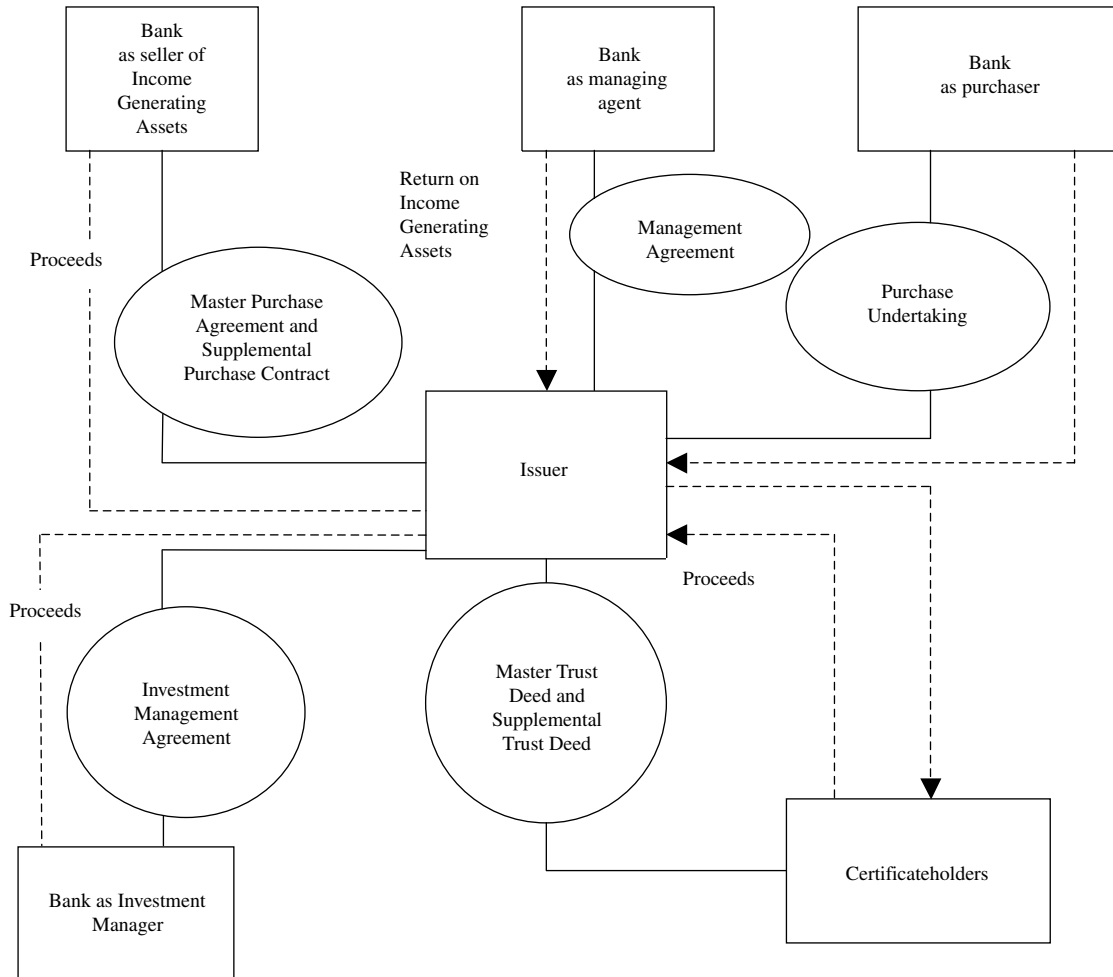
Consents to variation of Transaction Documents and other matters

The Declaration of Trust contains provisions permitting the Delegate (acting on behalf of the Certificateholders) from time to time and at any time without any consent or sanction of the Certificateholders to make any modification to the Declaration of Trust and the Conditions of the Trust Certificates if, in the opinion of the Delegate, such modification (a) is of a formal, minor or technical nature, or (b) is made to correct a manifest error or an error which is, in the opinion of the Delegate, proven, or (c) is not materially prejudicial to the interests of Certificateholders. Unless the Delegate otherwise decides, any such modification shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

STRUCTURE DIAGRAM AND CASHFLOWS

Set out below is a simplified structure diagram and description of the principal cash flows underlying each Series of Trust Certificates issued. Potential investors are referred to the terms and conditions of the Trust Certificates and the detailed descriptions of the relevant Transaction Documents set out elsewhere in this document for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below.

Structure Diagram



Cashflows

Payments by the Certificateholders and the Issuer

On the Issue Date of each Series of Trust Certificates, the relevant Certificateholders will pay the proceeds in respect thereof to the Issuer and the Issuer will pay an equivalent amount (i) to the Bank in respect of the sale and delivery by the Bank of a co-ownership interest in the relevant Income Generating Assets and (ii) to the extent that the proceeds of a Series of Trust Certificates exceed the value of the co-ownership interest acquired by the Issuer in the relevant Income Generating Assets on the relevant Issue Date, to the Bank as investment manager (the **Investment Manager**) under an investment management agreement dated on or about 24 September 2008 between, *inter alia*, the Issuer, the Trustee and the Bank (the **Investment Management Agreement**) for investment in the ordinary banking business of Dubai Bank PJSC pending investment in Income Generating Assets pursuant to the terms of the Investment Management Agreement (each such investment, an **Investment**).

Periodic Payments by the Bank

In relation to each Series of Trust Certificates, on each Periodic Distribution Date, the Bank as managing agent (the **Managing Agent**) will pay the Issuer an amount representing the Issuer's share of the return on account of profit in respect of the Income Generating Assets and, to the extent that any amounts are at the time invested under the Investment Management Agreement, the Investment Manager will pay to the Issuer an amount reflecting the returns generated in respect of the Investment, in an aggregate amount which is intended to be sufficient to fund the Periodic Distribution Amounts payable by the Issuer under the relevant Series of Trust Certificates.

In the event that the returns generated by the Income Generating Assets and the Investment of a Series are together insufficient to fund any relevant Periodic Distribution Amount for that Series, the Managing Agent and/or, as the case may be, the Investment Manager shall use any amounts standing to the credit of the Return Collection Reserve Account (as described below) and, if insufficient funds are available in the Return Collection Reserve Accounts, the Managing Agent shall make *Sharia*-compliant funding available to the Issuer in the amount of the shortfall. If the returns generated by the Income Generating Assets and the Investment of a Series are together greater than the relevant Periodic Distribution Amount for that Series, such amounts shall be credited to a separate account (the **Return Collection Reserve Account**) by the Managing Agent. Sums standing to the credit of the Return Collection Reserve Account may be used to fund shortfalls in Periodic Distribution Amounts as described above. Any sums standing to the credit of the Return Collection Reserve Account on the Business Day following redemption in full of the Trust Certificates shall be used to repay any *Sharia*-compliant financing previously made available by the Managing Agent and otherwise shall be paid to the Managing Agent for its own account by way of incentive fees for acting as Managing Agent.

Dissolution Payments

In relation to each Series of Trust Certificates, on the Maturity Date, the Issuer will have the right to require the Bank under the Purchase Undertaking to purchase its co-ownership interest in the Income Generating Assets for the relevant Series. Under the Investment Management Agreement the Investment Manager is obliged to repay the outstanding amount of the Investment on the Maturity Date and the exercise price payable by the Bank to the Issuer together with the proceeds of the Investment are intended to fund the Dissolution Amount payable by the Issuer under the Trust Certificates of that Series.

The Trust in relation to each Series may be dissolved prior to the relevant Maturity Date for a range of reasons including (i) default or the imposition of Taxes, (ii) in certain cases where so specified in the applicable Final Terms, at the option of the Issuer or (iii) upon the occurrences of a change of control in relation to the Bank, at the option of the Certificateholders. In any such case the Dissolution Amount will be funded through the Bank purchasing all or the relevant part of the Issuer's co ownership interest in the Income Generating Assets for the relevant Series and paying the exercise price to (or to the order of) the Issuer pursuant to the terms of the Purchase Undertaking or the Sale Undertaking, as the case may be and by repayment of the Investment.

GENERAL DESCRIPTION OF THE PROGRAMME

The following is an overview of the principal features of the Programme. This overview does not contain all of the information that an investor should consider before investing in Trust Certificates and is qualified in its entirety by the remainder of this Base Prospectus and the applicable Final Terms. Each investor should read the entire Base Prospectus and the applicable Final Terms carefully, especially the risks of investing in the Trust Certificates issued under the Programme discussed under “Risk Factors”.

Words and expressions defined in “*Form of the Trust Certificates*” and “*Terms and Conditions of the Trust Certificates*” shall have the same meanings in this general description.

The Programme provides a facility for the issuance of Trust Certificates in series (each, a **Series**). The terms and conditions governing each Series of Trust Certificates will be the “*Terms and Conditions of the Trust Certificates*” as described herein, as modified or supplemented by the applicable Final Terms. The following is an overview of the principal features of the Trust Certificates.

On the occasion of each issuance of Trust Certificates, the Issuer will receive contributions from the Certificateholders representing the proceeds of the Trust Certificates in the amount specified in the relevant Supplemental Trust Deed.

The Issuer (acting in its capacity as Trustee) has agreed to apply, on each occasion on which Trust Certificates of a Series are issued, the net proceeds of the issue of such Trust Certificates to purchase a co ownership interest in *Ijara* (leased) assets, *Musharaka* (co-ownership) assets representing interests in leased assets, and other assets that generate periodic income and that are not classified as debt for *Sharia* purposes (for the purposes of the foregoing, “debt” includes, but is not limited to, *Murabaha* and *Istisna’a* assets). Such assets must be *Sharia*-compliant assets that are originated, held or owned by the Bank (and include the income generated therefrom and any agreements or documents in relation thereto (**Income Generating Assets**)) purchased from the Bank pursuant to a master purchase agreement dated on or about 24 September 2008 between the Issuer, the Trustee and the Bank (the **Master Purchase Agreement**). The co ownership interests of the Issuer and the Bank in the Income Generating Assets of each Series will be set out in the applicable Final Terms.

The initial Income Generating Assets relating to each Series of Trust Certificates will be the subject of, and specified in, a Supplemental Purchase Contract between the Issuer, the Trustee and the Bank (each a **Supplemental Purchase Contract**).

To the extent that the proceeds of a Series of Trust Certificates exceed the value of the co-ownership interest acquired by the Issuer in the relevant Income Generating Assets on the relevant Issue Date, the excess proceeds will be paid to the Bank in its capacity as the Investment Manager under the Investment Management Agreement. The Investment Manager will pay the returns generated by the Investment in respect of each Return Accumulation Period to the Managing Agent for application in making periodic distributions in respect of the relevant Series on the relevant Periodic Distribution Date, as more particularly described in the Conditions.

The Bank in its capacity as managing agent (the **Managing Agent**) has agreed to manage the Income Generating Assets relating to each Series of Trust Certificates pursuant to a management agreement dated on or about 24 September 2008 between, *inter alia*, the Issuer, the Trustee and the Bank (the **Management Agreement**).

The Managing Agent will maintain three Collection Accounts (as defined below) in respect of each Series of Trust Assets. All monies received by the Managing Agent in respect of Income Generating Assets of each Series will be credited to the appropriate Collection Account and applied by the Managing Agent in a defined order of priority. In particular, profit received in respect of the Issuer’s co-ownership interest in the Income Generating Assets of each Series of Trust Certificates together with any returns generated by the Investment and paid to the Managing Agent as described above will, after paying the expenses of the relevant Trust (as defined below), be paid into the relevant Transaction Account and applied to make periodic distributions in respect of the relevant Series on the relevant Periodic Distribution Date, as more particularly described in the

Conditions. Principal collections received in respect of the Issuer's co-ownership interest in the Income Generating Assets of each Series of Trust Certificates will be reinvested by the Managing Agent on behalf of the Issuer in acquiring from the Bank co-ownership interests in additional Income Generating Assets for the relevant Trust in respect of that Series of Trust Certificates. Any such additional co-ownership interests will form part of the Trust Assets of the relevant Series of Trust Certificates.

Any insurance proceeds received by the Managing Agent in respect of the Income Generating Assets will be treated as Co-ownership Revenues and applied in accordance with the Management Agreement.

If the Managing Agent breaches its obligations under the Management Agreement, the Managing Agent shall be liable to indemnify the Issuer in accordance with the Management Agreement.

In the event that the returns generated by the Income Generating Assets and the Investment in respect of any Periodic Distribution Period exceed the Periodic Distribution Amount due at the end of such period, the excess shall be credited to a separate ledger account (the **Return Collection Reserve Account**). In the event that the returns generated by the Income Generating Assets and the Investment are, together with any amounts standing to the credit of the Return Collection Reserve Account, insufficient to fund any relevant Periodic Distribution Amount, the Managing Agent shall make *Sharia*-compliant funding available to the Issuer equal to the amount of such shortfall.

The Bank has agreed to purchase all, or as the case may be, the relevant part of the Issuer's co-ownership interest in the Income Generating Assets of each Series of Trust Certificates on an "as is" basis on the relevant Maturity Date or, as the case may be, on the relevant Dissolution Date (as defined in the Conditions) pursuant to a purchase undertaking dated on or about 24 September 2008 executed by the Bank (the **Purchase Undertaking**), to be supplemented, at the time of each such purchase, by a Sale Agreement (each a **Sale Agreement**) substantially in the form annexed to the Purchase Undertaking and containing the specific terms applicable to the relevant purchase. The price payable by the Bank pursuant to each such Sale Agreement (the **Exercise Price**) shall be (in the case of exercise of rights in accordance with Clause 3.1(a) or (c) of the Purchase Undertaking) an amount equal to the value of the Issuer's co-ownership interest in the Income Generating Assets relative to the particular Series of Trust Certificates and (in the case of exercise of rights in accordance with Clause 3.1(b) of the Purchase Undertaking) the Put Option Proportion (a fraction whose numerator is the aggregate face value of Certificates required to be redeemed on the Change of Control Put Date and whose denominator is the aggregate face value of the Certificates outstanding immediately prior to the Change of Control Put Date) of such value. The value of DB Sukuk Company Ltd.'s co-ownership interest in the Income Generating Assets applicable to each Series of Trust Certificates shall be determined as being equal to the Relevant Proportion of the aggregate of all future contractual payments of fixed rental instalment amounts due and payable in respect of the Income Generating Assets on and after the date of the valuation. The Relevant Proportion is a proportion equal to DB Sukuk Ltd.'s co-ownership interest in the Income Generating Assets of the relevant Series. In addition, under the Investment Management Agreement, the Investment Manager is obliged to repay the outstanding amount of the Investment on the Maturity Date. The Issuer will distribute the Exercise Price so received and any amounts received by the Issuer under the Investment Management Agreement in respect of the relevant Series of Trust Certificates to Certificateholders of the relevant Series in the amounts required to be paid in respect of the relevant Trust Certificates under the Conditions or as otherwise specified in the Final Terms applicable to such Series. Pursuant to a master trust deed (the **Master Trust Deed**) dated on or about 24 September 2008 between the Issuer, the Trustee, the Bank, and Deutsche Trustee Company Limited (in its capacity as the Trustee's delegate, the **Delegate**), as the same will be supplemented (on the occasion of the issue of each Series of Trust Certificates) by a supplemental trust deed (each, a **Supplemental Trust Deed**) in respect of the relevant Series of Trust Certificates, the Issuer (acting in its capacity as Trustee) will declare a trust (each, a **Trust**) over, *inter alia*, the Issuer's co-ownership interests in the Income Generating Assets, its rights under the Transaction Documents and any amounts in the Transaction Account in relation to the relevant Series of Trust Certificates, subject to the terms of the relevant Supplemental Trust Deed.

The Issuer will act as trustee in respect of the Trust Assets for the benefit of Certificateholders of each Series in accordance with the Master Trust Deed, the relevant Supplemental Trust Deed and the Conditions. Under the relevant Supplemental Trust Deed, the Issuer will, with effect from and including the date of the relevant

Supplemental Trust Deed, and save in certain limited respects only, unconditionally and irrevocably delegate the present and future duties, powers, authorities and discretions vested in the Trustee under the Master Trust Deed and the relevant Supplemental Trust Deed to the Delegate.

Following the distribution of the Trust Assets to the Certificateholders in accordance with the Conditions and the Master Trust Deed, neither the Trustee nor the Delegate shall be liable for any further sums, and accordingly the Certificateholders may not take any action against the Trustee, the Delegate or any other person to recover any such sum, in respect of the Trust Certificates or the Trust Assets.

Neither the Trustee nor the Delegate shall be bound in any circumstances to take any action to enforce or to realise such Trust Assets or take any action against the Bank under any Transaction Documents to which the Bank is a party unless directed or requested to do so by the Certificateholders in accordance with the Conditions, and then only to the extent indemnified and/or secured to its satisfaction.

No Certificateholder shall be entitled to proceed directly against the Bank unless (i) the Delegate, having become bound so to proceed, fails to do so within 30 days of becoming so bound and such failure is continuing and (ii) the relevant Certificateholder (together with the other Certificateholders who propose to proceed directly against the Bank) holds at least one-fifth of the aggregate face amount of the Trust Certificates then outstanding.

The foregoing is subject to the following: after enforcing or realising such Trust Assets and distributing the net proceeds of the Trust Assets in accordance with Condition 5.2, the obligations of the Issuer and the Trustee in respect of such Trust Certificates shall be satisfied and no Certificateholder may take any further steps against the Issuer or the Trustee to recover any further sums in respect of such Trust Certificates and the right to receive any such sums unpaid shall be extinguished. Under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets except pursuant to the Purchase Undertaking, and the sole right of the Trustee, the Delegate and the Certificateholders against the Bank shall be to enforce the obligation of the Bank to pay all amounts due from it under the Transaction Documents.

Certificateholders, by subscribing for or acquiring Trust Certificates, acknowledge that no recourse may be had for the payment of any amount owing in respect of any Trust Certificates against the Issuer, the Trustee or the Delegate, in any circumstances whatsoever to the extent the relevant Trust Assets have been exhausted, following which all obligations of the Issuer, the Trustee and the Delegate shall be extinguished.

Certificateholders should note that the Trustee and the Delegate will have recourse to the Bank (pursuant to the terms of the relevant Transaction Documents) and the ability of the Issuer to pay the amounts due in respect of the Trust Certificates will ultimately be dependent on the Bank.

A description of the Bank is included within this Base Prospectus under “*Description of Dubai Bank PJSC*” below.

Certain Transaction Documents are described in more detail in “*Summary of the Principal Transaction Documents*” below.

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| Issuer and Trustee: | DB Sukuk Company Ltd., an exempted company incorporated in accordance with the laws of the Cayman Islands. |
| Bank: | Dubai Bank PJSC. |
| Ownership of the Issuer: | The authorised share capital of the Issuer is US\$50,000 consisting of 50,000 shares of a nominal or par value of US\$1 each, of which 250 shares are fully paid up and issued. The Issuer’s entire issued share capital is held by Walkers SPV Limited under the terms of a trust for charitable purposes. |

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| Corporate Administration of the Issuer: | The affairs of the Issuer are managed by Walkers SPV Limited (the Issuer Administrator), who will provide, amongst other things, certain administrative services for and on behalf of the Issuer pursuant to the Corporate Services Agreement dated on or about 24 September 2008 between, <i>inter alia</i> , the Issuer and the Issuer Administrator (the Corporate Services Agreement). |
| Arrangers: | Standard Chartered Bank UBS Limited |
| Dealers: | Citigroup Global Markets Limited Morgan Stanley & Co. International plc HSBC Bank plc SHUAA Capital PSC Standard Chartered Bank UBS Limited and any other Dealers appointed in accordance with the Programme Agreement |
| Certain Restrictions: | Each issue of Trust Certificates denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see " <i>Subscription and Sale</i> "). The proceeds of any issue of Trust Certificates will not be accepted in the United Kingdom. |
| Delegate: | Deutsche Trustee Company Limited. |
| Principal Paying Agent, Calculation Agent and Replacement Agent: | Deutsche Bank AG, London Branch. |
| Registrar and Transfer Agent: | Deutsche Bank Luxembourg S.A. |
| Programme Size: | Up to US\$5,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement. |
| Distribution: | Trust Certificates may be distributed on a syndicated or non-syndicated basis. |
| Currencies: | Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer. |
| Maturities: | The Trust Certificates will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency. |
| Issue Price: | Trust Certificates may only be issued on a fully-paid basis and at an issue price which is at or about par. |
| Form of Trust Certificates: | The Trust Certificates will be issued in registered form as described in " <i>Form of the Trust Certificates</i> ". |
| Status: | Each Trust Certificate will evidence an undivided beneficial ownership interest of the Certificateholders in the Trust Assets of |

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| | the relevant Series, will be a limited recourse obligation of the Issuer and will rank <i>pari passu</i> , without any preference or priority, with all other Trust Certificates of the relevant Series issued under the Programme. |
| Periodic Distributions: | Certificateholders are entitled to receive Periodic Distribution Amounts calculated on the basis specified in the applicable Final Terms. |
| Redemption of Trust Certificates: | Trust Certificates shall be redeemed at the Dissolution Amount as may be specified in the applicable Final Terms. |
| Denomination of Trust Certificates: | The Trust Certificates will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Trust Certificate will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see “ <i>Certain Restrictions</i> ” above, and save that the minimum denomination of each Trust Certificate admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €50,000 (or, if the Trust Certificates are denominated in a currency other than euro, the equivalent amount in such currency). |
| Dissolution Events: | Upon the occurrence of any Dissolution Event, the Trust Certificates may be redeemed on the Dissolution Date at their face amount and the relevant Return Accumulation Period may be adjusted accordingly. See Condition 14. |
| Early Dissolution: | If so specified in the applicable Final Terms, a Series of Trust Certificates may be dissolved prior to its Maturity Date in the circumstances set out in Condition 11.2, 11.3 and 11.4. |
| Withholding Tax: | All payments in respect of Trust Certificates by the Issuer shall be made without withholding or deduction for, or on account of, any taxes, levies, imposts, duties, fees, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Relevant Jurisdiction. In the event that any such withholding or deduction is made, the Issuer will, save in the limited circumstances provided in Condition 12, be required to pay additional amounts so that the holders of the Trust Certificates will receive the full amounts that they would have received in the absence of such withholding or deduction. |
| Negative Pledge: | The Purchase Undertaking contains a negative pledge given by the Bank. See “ <i>Summary of the Principal Transaction Documents</i> ”. |
| Cross Default: | The Purchase Undertaking contains a cross default provision in relation to the Bank. See “ <i>Summary of the Principal Transaction Documents</i> ”. |
| Covenants: | The Issuer has agreed to certain restrictive covenants as set out in Condition 6. |

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| Ratings: | The ratings assigned to each Series of Trust Certificates to be issued under the Programme will be specified in the applicable Final Terms. |
| Listing and admission to trading: | <p>Application has been made to the UK Listing Authority for Trust Certificates issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Trust Certificates to be admitted to trading on the London Stock Exchange's regulated market.</p> <p>Trust Certificates may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Trust Certificates which are neither listed nor admitted to trading on any market may also be issued.</p> <p>Application has also been made for Trust Certificates issued under the Programme during the period of 12 months from the date hereof to be listed on the primary exchange and to be admitted on the Official List of Securities of the DIFX but there can be no assurance that any such listing will occur on or prior to the date of issue of the relevant Trust Certificates or at all.</p> <p>The applicable Final Terms will state whether or not the relevant Trust Certificates are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.</p> |
| Governing Law and Jurisdiction: | <p>The Trust Certificates will be governed by, and construed in accordance with, English law.</p> <p>The Master Trust Deed, each Supplemental Trust Deed, the Programme Agreement, the Agency Agreement, the Purchase Undertaking, the Sale Undertaking, the Investment Management Agreement, the Management Agreement and the Costs Undertaking will be governed by English law. The Bank has consented to arbitration in accordance with the rules of the LCIA (formerly known as The London Court of International Arbitration) in respect of these Transaction Documents. In addition, actions may be brought against the Bank in the English courts under these Transaction Documents.</p> <p>The remaining Transaction Documents will be governed by the laws of Dubai and the federal laws of the UAE. The courts of Dubai have non-exclusive jurisdiction to hear all disputes relating to them.</p> |
| Selling Restrictions: | There are restrictions on the offer, sale and transfer of the Trust Certificates in the United States, the European Economic Area (including the United Kingdom) the United Arab Emirates, the Kingdom of Saudi Arabia, the Kingdom of Bahrain, Dubai International Financial Centre, Kuwait, Malaysia, the State of Qatar and the Cayman Islands and such other restrictions as may be required in connection with the offering and sale of a particular Series of Trust Certificates, see " <i>Subscription and Sale</i> ". |
| United States Selling Restrictions: | Regulation S, Category 2. |

FORM OF THE TRUST CERTIFICATES

The Trust Certificates of each Series will be in registered form. Trust Certificates will be issued outside the United States in reliance on Regulation S under the U.S. Securities Act of 1933, as amended.

Each Series of Trust Certificates will initially be represented by a global trust certificate in registered form (a **Global Trust Certificate**). Global Trust Certificates will be deposited with a common depositary (the **Common Depositary**) for Euroclear and Clearstream, Luxembourg and will be registered in the name of a nominee for the Common Depositary. Persons holding beneficial interests in Global Trust Certificates will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Trust Certificates in fully registered form.

Payments of any amount in respect of the Global Trust Certificates will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 2.2) as the registered holder of the Global Trust Certificates. None of the Issuer, the Trustee, the Delegate, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Global Trust Certificates or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payment of any amounts in respect of Trust Certificates in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 1.1) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Global Trust Certificate will be exchangeable (free of charge), in whole but not in part, for definitive Trust Certificates only upon the occurrence of an Exchange Event. The Issuer will promptly give notice to Certificateholders in accordance with Condition 17 if an Exchange Event occurs. For these purposes, **Exchange Event** means that (i) a Dissolution Event (as defined in Condition 14) has occurred and is continuing or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Global Trust Certificate) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) above, the Delegate may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than ten days after the date of receipt of the first relevant notice by the Registrar.

For so long as any of the Trust Certificates is represented by a Global Trust Certificate held on behalf of Euroclear and/or Clearstream, Luxembourg each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular face amount of such Trust Certificates (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the face amount of such Trust Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and its agents as the holder of such face amount of such Trust Certificates for all purposes other than with respect to any payment on such face amount of such Trust Certificates, for which purpose the registered holder of the relevant Global Trust Certificate shall be treated by the Issuer, the Trustee, the Delegate and their respective agents as the holder of such face amount of such Trust Certificates in accordance with and subject to the terms of the relevant Global Trust Certificate and the expressions **Certificateholder** and **holder of Trust Certificates** and related expressions shall be construed accordingly.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Series of Trust Certificates issued under the Programme.

[Date]

DB Sukuk Company Ltd.

Issue of [Aggregate Face Amount of Series] [Title of Trust Certificates]
under the
US\$5,000,000,000
Trust Certificate Issuance Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 24 September 2008 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Trust Certificates described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer, Dubai Bank PJSC and the offer of the Trust Certificates is only available on the basis of a combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at the registered office of the Issuer at 87 Mary Street, George Town, Grand Cayman KY1-9002 and the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB and copies may be obtained from those offices.

[The following alternative language applies if the first Series of an issue which is being increased was issued under a Base Prospectus with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus dated [original date]. This document constitutes the Final Terms of the Trust Certificates described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) and must be read in conjunction with the Base Prospectus dated [current date] which constitutes a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [original date] and are attached hereto. Full information on the Issuer and the offer of the Trust Certificates is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated [current date] and [original date]. Copies of such Base Prospectuses are available for viewing at the registered office of the Issuer at 87 Mary Street, George Town, Grand Cayman KY1-9002 and the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB and copies may be obtained from those offices.

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]

[When adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

[The proceeds of any issue of Trust Certificates should not be accepted in the United Kingdom.]

1. Issuer and Trustee: DB Sukuk Company Ltd.
2. Bank: Dubai Bank PJSC
3. Series Number: []

4. Specified Currency: []
5. Aggregate Face Amount of Series: []
6. Issue Price: [] per cent. of the Aggregate Face Amount
7. Specified Denominations: []
(this means the minimum integral amount in which transfers can be made)
(N.B. If an issue of Trust Certificates is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €50,000 minimum denomination is not required.)
8. (a) Issue Date: []
 (b) Return Accrual Commencement Date: [Issue Date][specify other]
9. Maturity Date: [Specify date or (for Floating Periodic Distribution Trust Certificates) Periodic Distribution Date falling in or nearest to [relevant month and year].]
10. Periodic Distribution Amount Basis: [[] per cent. Fixed Periodic Distribution Amount] [[specify reference rate] +/-[] per cent. Floating Periodic Distribution Amount]
(further particulars specified below)
11. Dissolution Basis: Dissolution at par
12. Change of Periodic Distribution Basis: [Specify details of any provision for convertibility of Trust Certificates into another Periodic Distribution basis.] [Not Applicable]
13. Put/Call Options: [Not Applicable]
 [Optional Dissolution (Call)]
[further particulars specified below]
14. Status: Unsubordinated
15. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO PERIODIC DISTRIBUTIONS PAYABLE

16. Fixed Periodic Distribution Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate(s): [] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (b) Periodic Distribution Date(s): [] in each year up to and including the Maturity Date [specify other]
(N.B. This will need to be amended in the case of a long or short return accumulation periods)

- (c) Fixed Amount(s): [] per Trust Certificate of [] Specified Denomination [and [] per Trust Certificate of [] Specified Denomination]
(Applicable to Trust Certificates in definitive form)
- (d) Broken Amount(s): []
(Applicable to Trust Certificates in definitive form)
(Insert particulars of any initial or final broken Periodic Distribution Amounts which do not correspond with the Fixed Amount(s) specified under paragraph 1.1(a)(c))
- (e) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or *[specify other]*]
- (f) Determination Date(s): [] in each year
[Insert regular periodic distribution dates, ignoring issue date or maturity date in the case of a long or short first or last return accumulation period]
N.B. This will need to be amended in the case of regular periodic distribution dates which are not of equal duration
N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)]
- (g) Other terms relating to the method of calculating Fixed Periodic Distributions: [Not Applicable/*give details*]
17. Floating Periodic Distribution Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Specified Periodic Distribution Dates: [] [Not Applicable]
(Specified Period and Specified Periodic Distribution Dates are alternatives. If the Business Day Convention is the Floating Rate Convention, insert “Not Applicable”)
- (b) Specified Period: [] [Not Applicable]
(Specified Period and Specified Periodic Distribution Dates are alternatives. A Specified Period, rather than Specified Periodic Distribution Dates, will only be relevant if the Business Day Convention is the Floating Rate Convention. Otherwise, insert “Not Applicable”)
- (c) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*[specify other]*]
- (d) Additional Business Centre(s): [Not Applicable/*give details*]
- (e) Manner in which the Rate(s) is/are to be determined: [Screen Rate Determination (Condition 8.3) applies/*specify other*]
- (f) Screen Rate Determination: [Applicable/Not Applicable] *(If not applicable, delete the remaining sub paragraphs of this paragraph)*
- (i) Reference Rate: [For example, LIBOR or EURIBOR]

- (ii) Periodic Distribution Determination Date: []
(Second London business day prior to the start of each Return Accumulation Period if LIBOR (other than Sterling or euro LIBOR), first day of each Return Accumulation Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Return Accumulation Period if EURIBOR or euro LIBOR)
- (iii) Relevant Screen Page: [For example, Reuters [LIBOR01/EURIBOR01]]
- (iv) Relevant Time: [For example, 11.00 a.m. London time/Dubai time]
- (g) Margin: []
- (h) Day Count Fraction: [Actual/365
 Actual/365 (Fixed)
 Actual/365 (Sterling)
 Actual/360
 30/360
 30E/360
 Other]
(See Condition 8 for alternatives)
- (i) Calculation Agent: [Principal Paying Agent] [specify other]
- (j) Other terms relating to the method of calculating Floating Periodic Distributions: [Not Applicable] [give details]

PROVISIONS RELATING TO DISSOLUTION

18. Optional Dissolution (Call): [Applicable/Not Applicable]
(If not applicable, delete the remaining sub paragraphs of this paragraph)
- (a) Optional Dissolution Amount [[] per Trust Certificate of [] Specified Denomination] [specify other]
- (b) Optional Dissolution Date: [Any Periodic Distribution Date] [specify other]
- (c) Notice period (if other than as set out in the Conditions): []
19. Final Dissolution Amount: [] per Trust Certificate of [] Specified Denomination] [specify other]
20. Early Dissolution Amount (Tax): [Final Dissolution Amount] [[] per Trust Certificate of [] Specified Denomination] [specify other]
21. Early Dissolution Amount (Change of Control): [] per Trust Certificate of [] Specified Denomination] [specify other]
22. Dissolution Amount pursuant to Condition 14: [] per Trust Certificate of [] Specified Denomination][specify other]

GENERAL PROVISIONS APPLICABLE TO THE TRUST CERTIFICATES

23. Form of Trust Certificates: Global Trust Certificate exchangeable for Trust Certificates in definitive registered form in the limited circumstances specified in the Global Trust Certificate
24. Additional Financial Centre(s): []
- (Note that this item relates to the place of payment and not Return Accumulation Period end dates, to which item 17(d) relates)*

PROVISIONS IN RESPECT OF THE INCOME GENERATING ASSETS AND THE TRANSACTION DOCUMENTS

25. Income Generating Assets on the Issue Date: As scheduled to the Supplemental Purchase Contract dated [], a copy of which schedule is set out in the Annex hereto
26. Co-ownership interests in the Income Generating Assets: Issuer: [] per cent.
Bank: [] per cent.
27. Use of proceeds: [] applied towards the purchase of the Income Generating Assets
- [] paid to the Investment Manager under the Investment Management Agreement
28. Trust Assets: [Condition 5.1 applies] [*specify other*]
29. Details of Transaction Account: DB Sukuk Company Ltd.]. Transaction Account No: [Series No.: 1/2/3 etc] with []
30. Other Transaction Document Information:
- (a) Supplemental Trust Deed: Supplemental Trust Deed dated [] between the Issuer, the Trustee, the Bank and the Delegate
- (b) Supplemental Purchase Contract: Supplemental Purchase Contract dated [] between the Issuer, the Trustee and the Bank

OTHER FINAL TERMS

31. Other final terms: [Not Applicable/*give details*]
(When adding any other final terms consideration should be given as to whether such terms constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive)

DISTRIBUTION

32. (a) If syndicated, names of Managers: [Not Applicable/*give names*]
(b) Date of Subscription Agreement: []
33. If non-syndicated, name of relevant Dealer: []
34. Additional selling restrictions: [Not Applicable/*give details*]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on [*specify relevant regulated market (for example the London Stock Exchange’s regulated market and, if relevant, admission to an official list (for example the Official List of the UK Listing Authority))*] of Trust Certificates described herein pursuant to the US\$5,000,000,000 Trust Certificate Issuance Programme of DB Sukuk Company Ltd.

RESPONSIBILITY

Each of the Issuer and the Bank accepts responsibility for the information contained in these Final Terms. To the best of the knowledge and belief of each of the Issuer and the Bank (having taken all reasonable care to ensure that such is the case) the information contained in these Final Terms is in accordance with the facts and does not omit anything likely to affect the import of such information. [[] has been extracted from [*specify source*]. Each of the Issuer and the Bank confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of DB Sukuk Company Ltd. (the **Issuer**)

By: _____
Duly authorised

Signed on behalf of Dubai Bank PJSC (the **Bank**)

By: _____
Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Trust Certificates to be admitted to trading on [*specify relevant regulated market (for example the London Stock Exchange’s regulated market) and, if relevant, listing on an official list (for example, the Official List of the UK Listing Authority)*] with effect from [].] [Application is expected to be made by the Issuer (or on its behalf) for the Trust Certificates to be admitted to trading on [*specify relevant regulated market (for example the London Stock Exchange’s regulated market) and, if relevant, listing on an official list (for example, the Official List of the UK Listing Authority)*] with effect from [].] [Not Applicable.]
- (ii) Estimate of total expenses related to admission to trading: []

2. RATINGS

- Ratings: The Trust Certificates to be issued have been rated:
- [S & P: []]
- [Moody’s: []]
- [Fitch: []]
- [[*Other*]:[]]
- (The above disclosure should reflect the rating allocated to Trust Certificates of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating)*

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealer], so far as each of the Issuer and the Bank is aware, no person involved in the issue of the Trust Certificates has an interest material to the offer. – Amend as appropriate if there are other interests.]

4. REASONS FOR THE OFFER AND ESTIMATED NET PROCEEDS

- (i) Reasons for the offer (a) []
- (ii) Estimated net proceeds: (b) []

5. YIELD (Fixed Periodic Distribution Trust Certificates Only)

- Indication of yield: []
- The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

6. OPERATIONAL INFORMATION

- (i) ISIN Code: []
- (ii) Common Code: []
- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/*give name(s) and number(s)*]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): []

**Annex to the Final Terms
Income Generating Assets***

* Insert Schedule of initial Income Generating Assets contained in relevant Supplemental Purchase Contract once in final form.

TERMS AND CONDITIONS OF THE TRUST CERTIFICATES

The following is the text of the Terms and Conditions of the Trust Certificates, which will be endorsed on each Trust Certificate in definitive registered form issued under the Programme and will apply to each Global Trust Certificate. The applicable Final Terms in relation to any series of Trust Certificates may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Trust Certificates.

DB Sukuk Company Ltd. (in its capacity as issuer, the **Issuer** and, in its capacity as trustee, the **Trustee**,) has established a programme (the **Programme**) for the issuance of up to US\$5,000,000,000 in aggregate face amount of Trust Certificates.

Trust Certificates issued under the Programme are issued in series (each a **Series**). The final terms for this Trust Certificate (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Trust Certificate which supplement these Terms and Conditions (the **Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Trust Certificate. References to the **applicable Final Terms** are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Trust Certificate.

Each of the Trust Certificates will represent an undivided beneficial ownership interest in the Trust Assets which are held by the Trustee on trust (the **Trust**) for, *inter alia*, the benefit of the registered holders of the Trust Certificates pursuant to (i) a Master Trust Deed (the **Master Trust Deed**) dated 24 September 2008 and made between the Issuer, the Trustee, Dubai Bank PJSC (the **Bank**) and Deutsche Trustee Company Limited (the **Delegate**) and (ii) a supplemental trust deed (the **Supplemental Trust Deed** and, together with the Master Trust Deed, the **Trust Deed**) having the details set out in the applicable Final Terms.

In these Conditions, references to **Trust Certificates** shall be references to the Trust Certificates which are the subject of the applicable Final Terms.

Payments relating to the Trust Certificates will be made pursuant to an agency agreement dated on or about 24 September 2008 (the **Agency Agreement**) made between the Issuer, the Trustee, the Bank, Deutsche Bank Luxembourg S.A. in its capacities as transfer agent (in such capacity, the **Transfer Agent**, which expression shall include any successor) and registrar (in such capacity, the **Registrar**, which expression shall include any successor) and Deutsche Bank AG, London Branch in its capacity as principal paying agent (in such capacity, the **Principal Paying Agent**, which expression shall include any successor), calculation agent (in such capacity, the **Calculation Agent**, which expression shall include any successor) and replacement agent (in such capacity, the **Replacement Agent**, which expression shall include any successor). The Principal Paying Agent, the Transfer Agent, the Registrar and the Replacement Agent are together referred to as the **Agents**.

Subject as set below, copies of the documents set out below are available for inspection and obtainable free of charge during normal business hours at the specified office for the time being of the Principal Paying Agent. The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the documents set out below:

- (a) a master purchase agreement between the Issuer, the Trustee and the Bank dated on or about 24 September 2008 (the **Master Purchase Agreement**);
- (b) the Supplemental Purchase Contract (the **Supplemental Purchase Contract** and, together with the Master Purchase Agreement, the **Purchase Agreement**) having the details set out in the applicable Final Terms;
- (c) a management agreement between, *inter alia*, the Issuer, the Trustee and the Bank as managing agent (the **Managing Agent**) dated on or about 24 September 2008 (the **Management Agreement**);

- (d) if so specified in the applicable Final Terms, an investment management agreement between, *inter alia*, the Issuer, the Trustee and the Bank as investment manager (the **Investment Manager**) dated on or about 24 September 2008 (the **Investment Management Agreement**);
- (e) a purchase undertaking executed by the Bank dated on or about 24 September 2008 (the **Purchase Undertaking**), containing the form of Sale Agreement (the **Sale Agreement**) to be executed by the Bank, the Issuer and the Trustee on the Maturity Date or, as the case may be, any earlier Dissolution Date;
- (f) a sale undertaking executed by the Issuer dated on or about 24 September 2008 (the **Sale Undertaking**), containing the form of Sale Agreement (the **Sale Agreement**) to be executed by the Bank, the Issuer and the Trustee on any Dissolution Date (Tax);
- (g) the Trust Deed;
- (h) the Agency Agreement;
- (i) a programme agreement between the Issuer, the Trustee, the Bank and the Dealers dated on or about 24 September 2008 (the **Programme Agreement**);
- (j) a costs undertaking executed by the Bank dated on or about 24 September 2008 (the **Costs Undertaking**); and
- (k) the applicable Final Terms.

The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

Each initial Certificateholder, by its acquisition and holding of its interest in a Trust Certificate, shall be deemed to authorise and direct the Issuer (acting as trustee on behalf of the Certificateholders) to apply the sums paid by it in respect of its Trust Certificates (i) to purchase from the Bank a co-ownership interest in the Bank's undivided rights, title and interest in the Income Generating Assets, (ii) to the extent that the aggregate of such sums paid by all initial Certificateholders exceed the value of the co-ownership interest acquired by the Issuer in the Income Generating Assets, to pay such sums to the Investment Manager under the Investment Management Agreement for investment and (iii) to enter into each Transaction Document to which it is a party, subject to the terms and conditions of the Trust Deed and these Conditions.

1. INTERPRETATION

1.1 Definitions

Words and expressions defined in the Trust Deed and the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between any such document and the applicable Final Terms, the applicable Final Terms will prevail. In addition, in these Conditions the following expressions have the following meanings:

Calculation Agent means the Principal Paying Agent or such other Person specified in the applicable Final Terms as the party responsible for calculating the Periodic Distribution Amount and/or such other amount(s) as may be specified in the applicable Final Terms in accordance with Condition 8;

Change of Control Event means members of the Dubai ruling family and/or the Government of Dubai or any agency thereof at any time together cease to own or control directly or indirectly not less than 51 per cent. of the issued share capital of the Bank;

Co-owners means the Issuer and the Bank and **Co-owner** shall be construed accordingly;

Co-ownership Liabilities Amount means, in relation to each Series of Trust Certificates, the amount of any claims, losses, costs and expenses properly incurred or suffered by the Managing Agent in providing the services;

Co-ownership Revenues means all rental, sale proceeds or consideration, damages, insurance proceeds, compensation or other sums received by the Managing Agent in whatever currency in connection with the Income Generating Assets;

Dissolution Amount means, as appropriate, the Final Dissolution Amount, the Early Dissolution Amount (Tax), the Optional Dissolution Amount (Call), the Early Dissolution Amount (Change of Control) or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the applicable Final Terms;

Dissolution Date means, as the case may be, (a) following the occurrence of a Dissolution Event (as defined in Condition 14), the date on which the Trust Certificates are dissolved in accordance with the provisions of Condition 14, (b) the Dissolution Date (Tax) in accordance with the provisions of Condition 11.2, or (c) the Optional Dissolution Date (Call) in accordance with the provisions of Condition 11.3 or (d) the Change of Control Put Date in accordance with the provisions of Condition 11.4;

Extraordinary Resolution has the meaning given in Schedule 4 to the Master Trust Deed;

Income Generating Assets means (i) the initial portfolio of Income Generating Assets in relation to the Trust Certificates as more particularly described in the Supplemental Purchase Agreement and the applicable Final Terms and (ii) any further assets or substitute assets in which the Issuer acquires a co-ownership interest in accordance with the terms of the Management Agreement provided that any assets in which the Issuer ceases to have a co-ownership interest shall not thereafter be deemed to be Income Generating Assets;

Indebtedness means any present or future indebtedness of any person for or in respect of any money borrowed or raised including (without limitation) any borrowed money or liability arising under or in respect of any acceptance or acceptance credit or evidenced by any notes, bonds, debentures, debenture stock, loan stock or other securities or any moneys raised under any transaction having the commercial effect of borrowing or raising money;

Investment means each *Sharia*-compliant investment made by the Investment Manager using the proceeds of the issue of the Trust Certificates pursuant to the terms of the Investment Management Agreement;

Investment Manager means the Bank as investment manager under the Investment Management Agreement;

Liability means any loss, damage, cost, charge, claim, demand, expense, judgment, action, proceeding or liability whatsoever (including, without limitation, in respect of taxes, duties, levies, imposts and other charges) and including any value added tax or similar tax charged or chargeable in respect thereof and legal fees and expenses on a full indemnity basis;

Payment Business Day means:

- (a) a day on which banks in the relevant place of surrender of the Certificate of Registration (as defined in Condition 2.2) are open for presentation and payment of registered securities and for dealings in foreign currencies; and
- (b) in the case of payment by transfer to an account:
 - (i) if the currency of payment is euro, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
 - (ii) if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the principal financial centre of the currency of payment and in each (if any) Additional Financial Centre;

Periodic Distribution Amount means, in relation to a Trust Certificate and a Return Accumulation Period, the amount of profit distribution payable in respect of that Trust Certificate for that Return Accumulation Period which amount may be a Fixed Amount, a Broken Amount or an amount otherwise calculated in accordance with Condition 7 or Condition 8;

Person means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

Rate means the rate or rates (expressed as a percentage per annum) representing a defined share of the profits distributable by the Issuer in respect of the Trust Certificates specified in the applicable Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the applicable Final Terms;

Rating Agencies means the rating agencies, each of which has assigned a credit rating to the Trust Certificates, and their successors, and each a **Rating Agency**;

Record Date means, in the case of the payment of a Periodic Distribution Amount, the date falling on the fifteenth day before the relevant Periodic Distribution Date and, in the case of the payment of a Dissolution Amount, the date falling two Payment Business Days before the Maturity Date or Dissolution Date, as the case may be;

Reference Banks means the principal London office of each of four major banks engaged in the London or Eurozone inter-bank market selected by or on behalf of the Issuer, provided that once a Reference Bank has first been selected by the Issuer or its duly appointed representative, such Reference Bank shall not be changed unless it ceases to be capable of acting as such;

Relevant Date means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the principal financial centre of the currency of payment by the Principal Paying Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Certificateholders by the Issuer in accordance with Condition 17;

Relevant Jurisdiction means the Cayman Islands and the United Arab Emirates or, in either case, any political subdivision or authority thereof or therein having the power to tax;

Relevant Screen Page means the page, section or other part of a particular information service (including, without limitation, the Reuter Money 3000 Service) specified as the Relevant Screen Page in the applicable Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

Return Accumulation Period means the period from (and including) a Periodic Distribution Date (or the Return Accumulation Commencement Date) to (but excluding) the next (or first) Periodic Distribution Date;

Stock Exchange means, in relation to the Trust Certificates, the stock exchange or exchanges (if any) on which the Trust Certificates are for the time being quoted or listed;

a **Subsidiary** of a company (the **parent**) shall be construed as a reference to any company:

- (a) which is controlled by the parent; or
- (b) more than half the issued share capital of which is beneficially owned, directly or indirectly, by the parent; or
- (c) which is a subsidiary of another subsidiary of the parent,

and, for these purposes, a company shall be treated as being **controlled** by the parent if the parent (whether directly or indirectly and whether by ownership of share capital, the possession of voting

power, contract, trust or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of the company or otherwise controls, or has the power to control, the affairs and policies of the company;

TARGET Settlement Day means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the **TARGET System**) is open;

Taxes means any taxes, levies, imposts, duties, fees, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Relevant Jurisdiction, and all interest, penalties or similar liabilities with respect thereto;

Transaction Account means the account in the Issuer's name, details of which are specified in the applicable Final Terms;

Transaction Documents means the Purchase Agreement, the Management Agreement, the Investment Management Agreement; the Purchase Undertaking, the Sale Undertaking; the Trust Deed, the Costs Undertaking, the Agency Agreement, the Programme Agreement, any Subscription Agreement (as defined in the Programme Agreement) and any Sale Agreement;

Treaty means the Treaty establishing the European Communities, as amended; and

Trust Assets means the assets, rights, cash or investments described in Condition 5.1.

1.2 Interpretation

In these Conditions:

- (a) any reference to face amount shall be deemed to include the Dissolution Amount, any additional amounts (other than relating to Periodic Distribution Amounts) which may be payable under Condition 12, and any other amount in the nature of face amounts payable pursuant to these Conditions;
- (b) any reference to Periodic Distribution Amounts shall be deemed to include any additional amounts in respect of profit distributions which may be payable under Condition 12 and any other amount in the nature of a profit distribution payable pursuant to these Conditions;
- (c) references to Trust Certificates being "outstanding" shall be construed in accordance with the Master Trust Deed; and
- (d) any reference to a Transaction Document shall be construed as a reference to that Transaction Document as amended and/or supplemented up to and including the Issue Date.

2. FORM, DENOMINATION AND TITLE

2.1 Form and Denomination

The Trust Certificates are issued in registered form in the Specified Denominations.

For so long as any of the Trust Certificates is represented by a Global Trust Certificate held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular face amount of such Trust Certificates (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the face amount of such Trust Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee, the Delegate, the Bank and the Agents as the holder of such face amount of such Trust Certificates for all purposes other than with respect to payment in respect of such Trust Certificates, for which purpose the registered holder of the Global Trust Certificate shall be treated by the Issuer, the Trustee, the Delegate, the Bank and any

Agent as the holder of such face amount of such Trust Certificates in accordance with and subject to the terms of the relevant Global Trust Certificate and the expressions **Certificateholder** and **holder** in relation to any Trust Certificates and related expressions shall be construed accordingly.

Trust Certificates which are represented by a Global Trust Certificate will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

2.2 Register

The Registrar will maintain a register (the **Register**) of Certificateholders in respect of the Trust Certificates in accordance with the provisions of the Agency Agreement. A certificate of registration (each a **Certificate of Registration**) will be issued to each Certificateholder in respect of its entire registered holding of Trust Certificates and will be serially numbered with an identifying number which will be recorded also on the Register.

2.3 Title

The Issuer, the Trustee, the Delegate, the Bank and the Agents may (to the fullest extent permitted by applicable laws) deem and treat the person in whose name any outstanding Trust Certificate is for the time being registered (as set out in the Register) as the holder of such Trust Certificate or of a particular face amount of the Trust Certificates for all purposes (whether or not such Trust Certificate or face amount shall be overdue and notwithstanding any notice of ownership thereof or of trust or other interest with regard thereto, and any notice of loss or theft or any writing thereon), and the Issuer, the Trustee, the Delegate, the Bank and the Agents shall not be affected by any notice to the contrary.

All payments made to such registered holder shall be valid and, to the extent of the sums so paid, effective to satisfy and discharge the liability for moneys payable in respect of such Trust Certificate or face amount.

3. TRANSFERS OF TRUST CERTIFICATES AND ISSUE OF CERTIFICATES

3.1 Transfers

Subject to Conditions 3.4 and 3.5, a Trust Certificate may be transferred in whole or in an amount equal to the Specified Denomination or any integral multiple thereof by depositing the Certificate of Registration issued in respect of that Trust Certificate, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar.

3.2 Delivery of new Certificates of Registration

Each new Certificate of Registration to be issued upon transfer of Trust Certificates will, within five business days of receipt by the Registrar of the duly completed form of transfer endorsed on the relevant Certificate of Registration, be mailed by uninsured mail at the risk of the holder entitled to the Trust Certificate to the address specified in the form of transfer. For the purposes of this Condition, **business day** shall mean a day on which banks are open for business in the city in which the specified office of the Registrar is located.

Where some but not all of the Trust Certificates in respect of which a Certificate of Registration is issued are to be transferred, a new Certificate of Registration in respect of the Trust Certificates not so transferred will, within five business days of receipt by the Registrar of the original Certificate of Registration, be mailed by uninsured mail at the risk of the holder of the Trust Certificates not so

transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

3.3 Formalities free of charge

Registration of transfer of Trust Certificates will be effected without charge by or on behalf of the Issuer and the Registrar but upon payment (or the giving of such indemnity as the Issuer and the Registrar may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

3.4 Closed periods

No Certificateholder may require the transfer of a Trust Certificate to be registered during the period of 15 days ending on a Periodic Distribution Date, the Maturity Date, a Dissolution Date or any other date on which any payment of the face amount or payment of any profit in respect of a Trust Certificate falls due.

3.5 Regulations

All transfers of Trust Certificates and entries on the Register will be made subject to the detailed regulations concerning the transfer of Trust Certificates scheduled to the Master Trust Deed. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Certificateholder who requests one.

4. STATUS AND LIMITED RECOURSE

4.1 Status

Each Trust Certificate evidences an undivided beneficial ownership interest in the Trust Assets and is a limited recourse obligation of the Issuer. Each Trust Certificate ranks *pari passu*, without any preference or priority, with all other Trust Certificates.

4.2 Limited Recourse

Proceeds of the Trust Assets are the sole source of payments on the Trust Certificates. The Trust Certificates do not represent an interest in any of the Issuer, the Trustee, the Delegate, the Bank, any of the Agents or any of their respective affiliates. Accordingly, Certificateholders will have no recourse to any assets of the Issuer (other than the Trust Assets), the Trustee (including, in particular other assets comprised in other trusts, if any), the Bank (to the extent it fulfils all of its obligations under the relevant Transaction Documents to which it is a party), the Delegate, the Agents or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets. However, the Bank is obliged to make the payments under the relevant Transaction Documents to which it is a party directly to DB Sukuk Company Ltd. and DB Sukuk Company Ltd., as trustee for and on behalf of Certificateholders, will have direct recourse against the Bank to recover payments due to it from the Bank pursuant to such Transaction Documents.

The net proceeds of the realisation of, or enforcement with respect to, the Trust Assets may not be sufficient to make all payments due in respect of the Trust Certificates. If, following distribution of such proceeds, there remains a shortfall in payments due under the Trust Certificates, subject to Condition 15, no Certificateholder will have any claim against the Issuer, the Trustee, the Delegate, the Agents, the Bank (to the extent it fulfils all of its obligations under the relevant Transaction Documents to which it is a party) or any of their affiliates or other assets in respect of such shortfall and any unsatisfied claims of the Certificateholders shall be extinguished. In particular, no Certificateholder will be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding up or receivership of DB Sukuk Company Ltd. as a consequence of such shortfall or otherwise.

4.3 Agreement of Certificateholders

By purchasing the Trust Certificates, each Certificateholder agrees that notwithstanding anything to the contrary contained herein or in any other Transaction Document:

- (a) no payment of any amount whatsoever shall be made by DB Sukuk Company Ltd. or any of its agents on its behalf except to the extent funds are available therefor from the Trust Assets and further agrees that no recourse shall be had for the payment of any amount owing hereunder or under any other Transaction Document, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon any Transaction Document, against DB Sukuk Company Ltd. to the extent the Trust Assets have been exhausted following which all obligations of DB Sukuk Company Ltd. shall be extinguished; and
- (b) prior to the date which is one year and one day after the date on which all amounts owing by DB Sukuk Company Ltd. under the Transaction Documents to which it is a party have been paid in full, it will not institute against, or join with any other person in instituting against DB Sukuk Company Ltd., any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law.

5. THE TRUST

5.1 Trust Assets

Unless otherwise specified in the Supplemental Trust Deed and the applicable Final Terms, the Trust Assets will comprise:

- (a) the Issuer's co-ownership interest in the Income Generating Assets;
- (b) all of the Issuer's rights, benefits and entitlements in, to and under the Investment;
- (c) the rights, titles, interests and benefits, present and future, of the Issuer in, to and under the Transaction Documents;
- (d) all monies standing to the credit of the Transaction Account; and
- (e) any other assets, rights, cash or investments as may be specified in the applicable Final Terms, and all proceeds of the foregoing.

5.2 Application of Proceeds from the Trust Assets

Pursuant to the Trust Deed, the Trustee holds the Trust Assets for and on behalf of the holders of the Certificates. On each Periodic Distribution Date, on the Maturity Date or on any Dissolution Date, the Principal Paying Agent will apply the monies standing to the credit of the Transaction Account in the following order of priority:

- (a) first, to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate;
- (b) second, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due and unpaid;
- (c) third, unless the payment is made on the Maturity Date or any Dissolution Date, to the Managing Agent for credit to the Return Collection Reserve Account in accordance with the provisions of the Management Agreement;
- (d) fourth, only if such payment is made on the Maturity Date or any Dissolution Date, to the Principal Paying Agent in or towards payment *pari passu* and rateably of the Dissolution Amount;

- (e) fifth, but only after all necessary payments under fourth have been made, to the Managing Agent on the Business Day following the Maturity Date or the relevant Dissolution Date to repay any *Sharia*-compliant funding advanced by it to the Issuer; and
- (f) sixth, but only after all necessary payments under fourth and fifth have been made, to the Issuer.

6. COVENANTS

The Issuer has covenanted in the Master Trust Deed that, *inter alia*, for so long as any Trust Certificate is outstanding, it shall not (without the prior written consent of the Delegate):

- (a) incur any indebtedness in respect of borrowed money whatsoever, or give any guarantee in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) other than the Trust Certificates issued under the Programme;
- (b) secure any of its present or future indebtedness for borrowed money by any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law);
- (c) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise or permit such to occur or suffer such to exist), any part of (i) its title to the Income Generating Assets or any interest therein, (ii) its title to the Investment or any interest therein or (iii) its interests in any of the other Trust Assets except, in any such case, pursuant to any Transaction Document;
- (d) use the proceeds of the issue of the Trust Certificates for any purpose other than as set out in the applicable Final Terms;
- (e) amend or agree to any amendment of any Transaction Document to which it is a party, or its memorandum and articles of association, in a manner which is materially prejudicial to the rights of holders of outstanding Trust Certificates (it being accepted that an increase in the aggregate face amount of the Programme will not be materially prejudicial to such rights) without (i) the prior approval of the Certificateholders by way of Extraordinary Resolution and (ii) first notifying the Rating Agencies of the proposed amendments and subsequently providing the Rating Agencies with copies of the relevant executed amended Transaction Documents;
- (f) act as trustee in respect of any trust other than the Trust corresponding to a Series of Trust Certificates issued from time to time pursuant to the Programme;
- (g) have any subsidiaries or employees;
- (h) redeem any of its shares or pay any dividend or make any other distribution to its shareholders;
- (i) put to its directors or shareholders any resolution for or appoint any liquidator for its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it; and
- (j) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party or any permitted amendment or supplement thereto or as expressly permitted or required thereunder or engage in any business or activity other than:
 - (i) as provided for or permitted in the Transaction Documents;

- (ii) the ownership, management and disposal of Trust Assets as provided in the Transaction Documents; and
- (iii) such other matters which are incidental thereto.

7. FIXED PERIODIC DISTRIBUTION PROVISIONS

7.1 Application

This Condition 7 is applicable to the Trust Certificates only if the Fixed Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable.

7.2 Periodic Distribution Amount

A Periodic Distribution Amount representing a defined share of the profit in respect of the Trust Assets will be payable in respect of the Trust Certificates and be distributable by the Issuer to the Certificateholders in accordance with these Conditions.

7.3 Determination of Periodic Distribution Amount

Except as provided in the applicable Final Terms, the Periodic Distribution Amount payable in respect of each Trust Certificate for any Return Accumulation Period shall be the Fixed Amount and, if the Trust Certificates are in more than one Specified Denomination, shall be the Fixed Amount in respect of the relevant Specified Denomination. Payments of Periodic Distribution Amount on any Periodic Distribution Date may, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

Except in the case of Trust Certificates in definitive form where a Periodic Distribution Amount or Broken Amount is specified in the applicable Final Terms, such Periodic Distribution Amount shall be calculated by applying the Rate to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

Day Count Fraction means, in respect of the calculation of Periodic Distribution Amount in accordance with this Condition 7.3:

- (a) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:
 - (i) in the case of Trust Certificates where the number of days in the relevant period from (and including) the most recent Periodic Distribution Date (or, if none, the Return Accumulation Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
 - (ii) in the case of Trust Certificates where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
 - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination

Period and (y) the number of Determination Dates that would occur in one calendar year; and

- (b) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Periodic Distribution Date (or, if none, the Return Accumulation Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30 day months) divided by 360.

In the Conditions:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Return Accrual Commencement Date or the final Periodic Distribution Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

7.4 Payment in Arrear

Subject to Condition 7.5, Condition 11.2, Condition 11.3, Condition 11.4 and Condition 14 below, and unless otherwise specified in the applicable Final Terms, each Periodic Distribution Amount will be paid in respect of the relevant Trust Certificates in arrear on each Periodic Distribution Date.

7.5 Cessation of Profit Entitlement

No further amounts will be payable on any Trust Certificate from and including the Maturity Date or, as the case may be, the Dissolution Date unless, upon due surrender of the relevant Trust Certificate in accordance with Condition 9, payment in respect of the Trust Certificate is improperly withheld or refused, or unless default is otherwise made in respect of payment, in which event Periodic Distribution Amounts will continue to accrue in respect of the Trust Certificates in the manner provided in this Condition.

8. FLOATING PERIODIC DISTRIBUTION PROVISIONS

8.1 Application

This Condition 8 is applicable to the Trust Certificates only if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable.

8.2 Periodic Distribution Amount

A Periodic Distribution Amount representing a defined share of the profit in respect of the Trust Assets will be payable in respect of the Trust Certificates and be distributable by the Issuer to the Certificateholders in accordance with these Conditions. Such Periodic Distribution Amounts will be payable in arrear on either:

- (a) the Specified Periodic Distribution Date(s) in each year specified in the applicable Final Terms; or
- (b) if no Specified Periodic Distribution Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Periodic Distribution Date, a **Periodic Distribution Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Periodic Distribution Date or, in the case of the first Periodic Distribution Date, after the Return Accumulation Commencement Date.

Such Periodic Distribution Amounts will be payable in respect of each Return Accumulation Period.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which a Periodic Distribution Date should occur or (y) if any Periodic Distribution Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 8.2(b) above, the Floating Rate Convention, such Periodic Distribution Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Periodic Distribution Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Periodic Distribution Date occurred; or
- (B) the Following Business Day Convention, such Periodic Distribution Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Periodic Distribution Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, **Business Day** means a day which is both:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and
- (b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre) or (ii) in relation to any sum payable in euro, a day on which the TARGET System is open.

8.3 Screen Rate Determination

If Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate(s) is/are to be determined, the Rate applicable to the Trust Certificates for each Return Accumulation Period will be determined by the Calculation Agent on the following basis:

- (a) if the Reference Rate specified in the applicable Final Terms is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Periodic Distribution Determination Date;
- (b) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Periodic Distribution Determination Date;
- (c) if, in the case of (a) above, such rate does not appear on that page or, in the case of (b) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

- (i) request each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Periodic Distribution Determination Date to prime banks in the London or Eurozone interbank market, as the case may be, in an amount that is representative for a single transaction in that market at that time; and
 - (ii) determine the arithmetic mean of such quotations; and
- (d) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates quoted by major banks in the principal financial centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the principal financial centre of the Specified Currency) on the first day of the relevant Return Accumulation Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Return Accumulation Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate for such Return Accumulation Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; *provided, however, that* if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Return Accumulation Period, the Rate applicable to the Trust Certificates during such Return Accumulation Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Trust Certificates in respect of a preceding Return Accumulation Period.

8.4 Cessation of Profit Entitlement

No further amounts will be payable on any Trust Certificate from and including the Maturity Date or, as the case may be, the Dissolution Date unless, upon due surrender of the relevant Trust Certificate in accordance with Condition 9, payment in respect of the Trust Certificate is improperly withheld or refused, or unless default is otherwise made in respect of payment, in which event Periodic Distribution Amounts will continue to accrue in respect of the Trust Certificates in the manner provided in this Condition but calculated on the basis that the applicable Rate is the Rate that applied to the Trust Certificates immediately prior to the date on which payment was not made.

8.5 Calculation of Periodic Distribution Amount

The Calculation Agent will, as soon as practicable after the time at which the Rate is to be determined in relation to each Return Accumulation Period, calculate the Periodic Distribution Amount payable in respect of each Trust Certificate for such Return Accumulation Period. The Periodic Distribution Amount will be calculated by applying the Rate applicable to the relevant Return Accumulation Period to the face amount (in the case of a Trust Certificate in global form) or Specified Denomination (in the case of a Trust Certificate in definitive registered form) of such Trust Certificate during such Return Accumulation Period, multiplying the product by the relevant Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards).

Day Count Fraction means, in respect of the calculation of a Periodic Distribution Amount in accordance with this Condition 8:

- (a) if “Actual/365” or “Actual/Actual (ISDA)” is specified in the applicable Final Terms, the actual number of days in the Return Accumulation Period divided by 365 (or, if any portion of that Return Accumulation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Return Accumulation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Return Accumulation Period falling in a non-leap year divided by 365);
- (b) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Return Accumulation Period divided by 365;

- (c) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Return Accumulation Period divided by 365 or, in the case of a Periodic Distribution Date falling in a leap year, 366;
- (d) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Return Accumulation Period divided by 360;
- (e) if “30/360” “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Return Accumulation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (A) the last day of the Return Accumulation Period is the 31st day of a month but the first day of the Return Accumulation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (B) the last day of the Return Accumulation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (f) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Return Accumulation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Return Accumulation Period unless, in the case of the final Return Accumulation Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

8.6 Calculation of Other Amounts

If the applicable Final Terms specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the applicable Final Terms.

8.7 Publication

The Calculation Agent will cause each Rate and Periodic Distribution Amount determined by it, together with the relevant Periodic Distribution Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Trust Certificates have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate, Periodic Distribution Amount and Periodic Distribution Date) in any event not later than the first day of the relevant Return Accumulation Period. Notice thereof shall also promptly be given to the Certificateholders. The Calculation Agent will be entitled to recalculate any Periodic Distribution Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Return Accumulation Period.

8.8 Notifications, etc. to be final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition by the Calculation Agent will (in the absence of wilful default, bad faith or manifest or proven error) be binding on the Issuer, the Trustee, the Delegate, the Principal Paying Agent and all Certificateholders. In the absence as referred to above, no liability to the Issuer, the Trustee, the Delegate, the Bank, the Principal Paying Agent or the Certificateholders shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition.

9. PAYMENT

Payment of Dissolution Amounts and Periodic Distribution Amounts will be made by transfer to the registered account (as defined below) of the Certificateholder in the Specified Currency or by cheque mailed

to the registered address of the Certificateholder if it does not have a registered account. Payments of Dissolution Amounts will only be made against surrender of the relevant Certificate of Registration at the specified office of the Registrar or the Principal Paying Agent. Dissolution Amounts and Periodic Distribution Amounts will be paid to the holder shown on the Register at the close of business on the relevant Record Date.

For the purposes of this Condition, a Certificateholder's **registered account** means the account in the Specified Currency maintained by or on behalf of such Certificateholder with a bank that processes payments in the Specified Currency, details of which appear on the Register at the close of business on the relevant Record Date, and a Certificateholder's **registered address** means its address appearing on the Register at that time.

All such payments will be made subject to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions described in Condition 12.

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the Payment Business Day preceding the due date for payment or, in the case of a payment of face amounts, if later, on the Payment Business Day on which the relevant Certificate of Registration is surrendered at the specified office of the Registrar or the Principal Paying Agent.

Unless otherwise specified in the applicable Final Terms, Certificateholders will not be entitled to any payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the Certificateholder is late in surrendering its Certificate of Registration (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

If the amount of any Dissolution Amount or Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount of such Dissolution Amount or Periodic Distribution Amount in fact paid.

10. AGENTS

10.1 Agents of Issuer

In acting under the Agency Agreement and in connection with the Trust Certificates, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Delegate and do not assume any obligations towards or relationship of agency or trust for or with any of the Certificateholders.

10.2 Specified Offices

The names of the initial Agents and their initial specified offices are set out below. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents *provided, however, that:*

- (a) there will at all times be a Principal Paying Agent;
- (b) there will at all times be a Registrar;
- (c) so long as any Trust Certificates are admitted to listing, trading and/or quotation on any listing authority, stock exchange and/or quotation system, there will at all times be a Paying Agent and a Transfer Agent having its specified office in such place (if any) as may be required by the rules of such listing authority, stock exchange and/or quotation system;
- (d) there will at all times be a Replacement Agent;
- (e) there will at all times be a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced to conform to, such Directive;

- (f) there will at all times be a Calculation Agent; and
- (g) for so long as the Trust Certificates are listed on the Dubai International Financial Exchange (**DIFX**) and the rules of the DIFX so require, it will notify the DIFX of any change in the Principal Paying Agent and subsequently the market through CANDI (Corporate Action News Disclosures for Issuers).

Notice of any termination or appointment and of any changes in specified offices will be given to the Certificateholders promptly by the Issuer in accordance with Condition 17.

11. CAPITAL DISTRIBUTIONS OF TRUST

11.1 Scheduled Dissolution

Unless the Trust Certificates are redeemed earlier, each Trust Certificate will be redeemed on the Maturity Date at its Final Dissolution Amount together with any Periodic Distribution Amount payable. Upon payment in full of such amounts and the termination of the Trust, the Trust Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Issuer shall have no further obligations in respect thereof.

11.2 Early Dissolution for Tax Reasons

The Trust Certificates may be redeemed by the Issuer in whole, but not in part (with the prior written consent of the Bank) and in such case the Trust will be dissolved by the Trustee:

- (a) at any time (if the Floating Periodic Distribution Provisions are not specified in the applicable Final Terms as being applicable); or
- (b) on any Periodic Distribution Date (if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Certificateholders in accordance with Condition 17 (which notice shall be irrevocable), at their Early Dissolution Amount (Tax), together with Periodic Distribution Amounts accrued (if any) to the dissolution date specified in the notice (the **Dissolution Date (Tax)**), if:

- (i) (A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 12 as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or
- (ii) (A) the Issuer has received notice from the Managing Agent and/or the Investment Manager that it has or will become obliged to pay additional amounts pursuant to the terms of the Management Agreement or the Investment Management Agreement, as the case may be, as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date and (B) such obligation cannot be avoided by the Managing Agent and/or the Investment Manager, as the case may be, taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than:

- (A) where the Trust Certificates may be dissolved at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Trust Certificates were then due; or
- (B) where the Trust Certificates may be dissolved only on a Periodic Distribution Date, 60 days prior to the Periodic Distribution Date occurring immediately before the earliest date on which

the Issuer would be obliged to pay such additional amounts if a payment in respect of the Trust Certificates were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Principal Paying Agent (a) a certificate signed by a director acting on behalf of the Issuer, which shall be binding on the Certificateholders, stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent in (i) and (ii) above to the right of the Issuer so to redeem have occurred, and (b) an opinion of independent legal advisers of recognised standing to the effect that the Issuer or the Managing Agent and/or the Investment Manager, as the case may be, has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 11.2, the Issuer shall be bound to redeem the Trust Certificates in accordance with this Condition 11.2 and the Trustee shall be bound to dissolve the Trust. Upon such redemption and dissolution as aforesaid, the Trust Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Issuer shall have no further obligations in respect thereof.

11.3 Dissolution at the Option of the Issuer

If the Optional Dissolution (Call) option is specified in the applicable Final Terms as being applicable, the Trust Certificates may be redeemed by the Issuer in whole, but not in part (with the prior written consent of the Bank) and in such case the Trust will be dissolved by the Trustee on any Optional Dissolution Date at the relevant Optional Dissolution Amount together with Periodic Distribution Amounts accrued (if any) to the Optional Dissolution Date on the Issuer giving not less than 30 nor more than 60 days' notice to the Certificateholders in accordance with Condition 17 (which notice shall be irrevocable and shall oblige the Issuer to redeem the Trust Certificates on the relevant Optional Dissolution Date). Upon payment in full of such amounts and the termination of the relevant Trust, the Trust Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Issuer shall have no further obligations in respect thereof.

11.4 Dissolution Following a Change of Control

Upon becoming aware of the occurrence of a Change of Control Event, the Issuer will notify the Certificateholders in accordance with Condition 17 and specify a date (the **Change of Control Put Date**) falling not less than 30 days and not more than 60 days after the date of the notice and each Certificateholder will have the right, during such notice period, at his option to require the Issuer to redeem its Trust Certificates on the Change of Control Put Date at their Early Dissolution Amount (Change of Control) together with Periodic Distribution Amounts accrued (if any) to the Change of Control Put Date. To exercise such right, a Certificateholder must deliver, at the specified office of the Principal Paying Agent at any time during normal business hours of such Principal Paying Agent within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from the specified office of the Principal Paying Agent (a **Put Notice**) and in which the Certificateholder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by the relevant Trust Certificates or evidence satisfactory to the Principal Paying Agent concerned that the relevant Trust Certificates will, following delivery of the Put Notice, be held to its order or under its control. Any Put Notice given by a Certificateholder pursuant to this Condition 11.4 shall be irrevocable and the Issuer will redeem all Trust Certificates which are the subject of a validly delivered Put Notice on the Change of Control Put Date at the Early Dissolution Amount (Change of Control) together with Periodic Distribution Amounts accrued (if any) to the Change of Control Put Date. If all Trust Certificates are so redeemed on the Change of Control Put Date, the Trust will be dissolved. Upon any such redemption, the Trust Certificates so redeemed shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Issuer shall have no further obligations in respect thereof.

11.5 No Other Optional Early Dissolution

The Issuer shall not be entitled to redeem the Trust Certificates, and the Trustee shall not be entitled to dissolve the Trust, at its option otherwise than as provided in Conditions 11.1, 11.2, 11.3 and 11.4 above.

11.6 Cancellation

All Trust Certificates which are redeemed will forthwith be cancelled and destroyed and accordingly may not be held, reissued or resold.

12. TAXATION

All payments in respect of the Trust Certificates shall be made without withholding or deduction for, or on account of, any Taxes, unless the withholding or deduction of the Taxes is required by law. In such event, the Issuer will pay to the Certificateholders additional amounts so that the full amount which otherwise would have been due and payable under the Trust Certificates is received by parties entitled thereto, except that no such additional amount shall be payable to any Certificateholder:

- (a) who is liable for such Taxes in respect of such Trust Certificate by reason of having some connection with any Relevant Jurisdiction other than the mere holding of such Trust Certificate; or
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (c) where the Certificate of Registration is required to be presented for payment and is presented for payment by or on behalf of a Certificateholder who would be able to avoid such withholding or deduction by presenting the relevant Certificate of Registration to another Paying Agent in a Member State of the European Union; or
- (d) where (in the case of the payment of face amounts or Periodic Distribution Amounts on dissolution) the relevant Certificate of Registration is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Certificateholder would have been entitled to such additional amount if it had surrendered the relevant Certificate of Registration on the last day of such period of 30 days.

13. PRESCRIPTION

The rights to receive distributions in respect of the Trust Certificates will be forfeited unless claimed within periods of ten years (in the case of Dissolution Amounts) and five years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect thereof.

14. DISSOLUTION EVENTS

If any of the following events occurs and is continuing (each, a **Dissolution Event**):

- (a) default is made in the payment of the Dissolution Amount or any Periodic Distribution Amount and, in the case of any Periodic Distribution Amount only, such default continues for a period of seven days; or
- (b) the Issuer fails duly to perform or comply with any of the obligations expressed to be assumed by it in the Transaction Documents and such default is not capable of remedy or (if capable of remedy) is not remedied within 30 days after written notice of such default shall have been given to the Issuer by the Delegate; or
- (c) a Dubai Bank Event (as defined in the Purchase Undertaking) occurs; or

- (d) the Issuer repudiates any Transaction Document or does or causes to be done any act or thing evidencing an intention to repudiate any Transaction Document; or
- (e) at any time it is or will become unlawful for the Issuer to perform or comply with any of its obligations under the Transaction Documents or any of the obligations of the Issuer under the Transaction Documents are not or cease to be legal, valid and binding;
- (f) either (i) the Issuer becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the whole or substantially the whole of the undertaking, assets and revenues of the Issuer is appointed (or application for any such appointment is made), (iii) the Issuer takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it, (iv) the Issuer ceases or threatens to cease to carry on all or substantially the whole of its business (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or
- (g) an order or decree is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer; or
- (h) any event occurs which under the laws of the Cayman Islands has an analogous effect to any of the events referred to in paragraph (f) and (g) above,

then the Delegate at its discretion may, and if so requested in writing by Certificateholders representing not less than one-fifth in face amount of the Trust Certificates for the time being outstanding (subject to being indemnified and/or secured to its satisfaction) shall, by written notice addressed to the Issuer and the Bank, declare the Trust Certificates to be immediately due and payable, whereupon they shall become immediately due and payable on the date specified by the Delegate (the **Dissolution Date**) at their Dissolution Amount together with accrued Periodic Distribution Amounts (if any). Notice of any such declaration shall promptly be given to the Certificateholders in accordance with Condition 17. Upon payment in full of such amounts, the Trust Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof, the Trust shall be dissolved and the Issuer shall have no further obligations in respect thereof.

For the purpose of (a) above, amounts shall be considered due in respect of the Trust Certificates (including for the avoidance of doubt any amounts calculated as being payable under Condition 7, Condition 8 and Condition 11) notwithstanding that the Issuer has at the relevant time insufficient funds or Trust Assets to pay such amounts.

15. ENFORCEMENT AND EXERCISE OF RIGHTS

15.1 Enforcement

Upon the occurrence of a Dissolution Event, to the extent that the amounts payable in respect of the Trust Certificates have not been paid in full pursuant to Condition 14, the Delegate shall, upon being requested in writing by Certificateholders representing not less than one-fifth in face amount of the Trust Certificates for the time being outstanding (subject to being indemnified and/or secured to its satisfaction), take one or more of the following steps:

- (a) enforce the provisions of the Purchase Undertaking, the Management Agreement and the Investment Management Agreement against the Bank; and/or
- (b) take such other steps as the Delegate may consider necessary in its absolute discretion to protect the interests of the Certificateholders.

Notwithstanding the foregoing, the Delegate may at any time, at its discretion and without notice, take such proceedings and/or other steps as it may think fit against or in relation to each of the Issuer and

the Bank to enforce their respective obligations under the Transaction Documents, the Conditions and the Trust Certificates.

15.2 Limitation on liability of the Trustee and the Delegate

Following the distribution of the proceeds of the Trust Assets in respect of the Trust Certificates to the Certificateholders in accordance with these Conditions and the Trust Deed, neither the Trustee nor the Delegate shall be liable for any further sums, and accordingly no Certificateholder may take any action against the Trustee, the Delegate or any other person (other than the Bank) to recover any such sum in respect of the Trust Certificates or Trust Assets.

15.3 Delegate not obliged to take action

The Delegate shall not be bound in any circumstances to take any action to enforce or to realise the Trust Assets or take any action against the Bank under any Transaction Document to which the Bank is a party unless directed or requested to do so (a) by an Extraordinary Resolution or (b) in writing by the holders of at least one-fifth in aggregate face amount of the Certificates then outstanding and, in each case, indemnified and/or secured to its satisfaction.

15.4 Direct enforcement by Certificateholders

No Certificateholder shall be entitled to proceed directly against the Issuer or the Bank unless (i) the Delegate, having become bound so to proceed, fails to do so within 30 days of becoming so bound and such failure is continuing and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against the Bank) holds at least one-fifth of the aggregate face amount of the Trust Certificates then outstanding. Under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets except pursuant to the Purchase Undertaking, and the sole right of the Trustee, the Delegate and the Certificateholders against the Bank shall be to enforce its obligation to pay the Exercise Price under the Purchase Undertaking and any other amounts due by it under the Transaction Documents to which it is a party.

15.5 Limited recourse

Conditions 15.2, 15.3 and 15.4 are subject to this Condition 15.5. After distributing the net proceeds of the Trust Assets in accordance with Condition 5.2, the obligations of the Trustee and the Delegate in respect of the Trust Certificates shall be satisfied and no holder of the Trust Certificates may take any further steps against the Trustee or the Delegate to recover any further sums in respect of the Trust Certificates and the right to receive any such sums unpaid shall be extinguished. In particular, no holder of the Trust Certificates shall be entitled in respect thereof to petition or to take any other steps for the winding-up of DB Sukuk Company Ltd. nor shall any of them have any claim in respect of the trust assets of any other trust established by the Trustee.

16. REPLACEMENT OF CERTIFICATES OF REGISTRATION

Should any Certificate of Registration be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Replacement Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates of Registration must be surrendered before replacements will be issued.

17. NOTICES

All notices regarding Trust Certificates will be deemed to be validly given if published in one or more leading English language daily newspapers of general circulation in London and the Gulf region. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London and *Gulf*

News in the Gulf region. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Trust Certificates are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Delegate shall approve.

Until such time as any definitive Trust Certificates are issued, there may, so long as any Global Trust Certificate representing the Trust Certificates is held in its entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Trust Certificates and, in addition, for so long as any Trust Certificates are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Trust Certificates on the same day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Certificateholder shall be in writing and given by lodging the same, together with the relative Trust Certificate or Trust Certificates, with the Principal Paying Agent. Whilst any of the Trust Certificates are represented by a Global Trust Certificate, such notice may be given by any holder of a Trust Certificate to the Principal Paying Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

18. MEETINGS OF CERTIFICATEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

18.1 The Master Trust Deed contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more Certificateholders, proxies or representatives holding or representing in the aggregate not less than a majority in face amount of the Trust Certificates for the time being outstanding, or at any adjourned such meeting one or more Certificateholders, proxies or representatives present whatever the face amount of the Trust Certificates held or represented by him or them except that any meeting the business of which includes the modification of certain provisions of the Trust Certificates (including modifying the Maturity Date or any other date for the payment of the Trust Certificates, reducing or cancelling any amount payable in respect of the Trust Certificates or altering the currency of payment of the Trust Certificates or amending the provisions contained in the Trust Deed concerning the quorum required at any meeting of the Certificateholders or the majority required to pass an Extraordinary Resolution or amending certain undertakings given by the Issuer and the Bank in the Trust Deed, or the Bank in the Purchase Undertaking and the Management Agreement), the quorum shall be one or more persons present holding or representing in the aggregate at least 75 per cent. in aggregate face amount of the Trust Certificates for the time being outstanding, or at any adjourned such meeting one or more persons present holding or representing in the aggregate at least 25 per cent. in aggregate face amount of the Trust Certificates for the time being outstanding. To be passed, an Extraordinary Resolution requires a majority in favour consisting of not less than two-thirds of the persons voting on a show of hands or, if a poll is duly demanded, a majority of not less than two-thirds of the votes cast on such poll and, if duly passed, will be binding on all holders of the Trust Certificates, whether or not they are present at the meeting and whether or not voting.

18.2 The Delegate may agree, without the consent or sanction of the Certificateholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed or determine, without any such consent or sanction as

aforesaid, that any Dissolution Event shall not be treated as such, which in any such case is not, in the opinion of the Delegate, materially prejudicial to the interests of the Certificateholders or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Delegate, proven.

- 18.3 In connection with the exercise by it of any of the powers, trusts, authorities and discretions vested in it (including, without limitation, any modification, waiver, authorisation or determination), the Delegate shall have regard to the general interests of the Certificateholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof) and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Delegate or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders except to the extent provided in Condition 12.
- 18.4 Any modification, abrogation, waiver, authorisation or determination shall be binding on all the Certificateholders and shall be notified to the Certificateholders as soon as practicable thereafter in accordance with Condition 17.

19. INDEMNIFICATION AND LIABILITY OF THE TRUSTEE AND THE DELEGATE

- 19.1 The Trust Deed contains provisions for the indemnification of each of the Trustee and the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured to its satisfaction.
- 19.2 The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Bank under any Transaction Document to which the Bank is a party (or are parties) and shall not under any circumstances have any liability or be obliged to account to the Certificateholders in respect of any payment which should have been made by the Bank, but is not so made, and shall not in any circumstances have any liability arising from the Trust Assets other than as expressly provided in the Conditions or in the Trust Deed.
- 19.3 Each of the Trustee and the Delegate is exempted from (i) any liability in respect of any loss or theft of the Trust Assets or any cash, (ii) any obligation to insure the Trust Assets or any cash and (iii) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or the Delegate or on deposit or in an account with any depository or clearing system or are registered in the name of the Trustee, the Delegate or its nominee, unless such loss or theft arises as a result of the fraud, wilful default or gross negligence of the Trustee or the Delegate.

20. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

21. GOVERNING LAW AND SUBMISSION TO JURISDICTION

- 21.1 The Trust Deed is governed by, and will be construed in accordance with, English law.
- 21.2 Subject to Condition 21.3, any dispute arising out of or connected with the Trust Certificates (including a dispute regarding the existence, validity or termination of the Trust Certificates) (a **Dispute**) shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules of the LCIA (formerly known as The London Court of International Arbitration) (the **Rules**),

which Rules (as amended from time to time) are incorporated by reference into this Condition. For these purposes:

- (a) the place of arbitration shall be Paris;
- (b) there shall be three independent arbitrators; and
- (c) the language of the arbitration shall be English.

21.3 Notwithstanding Condition 21.2 above, any Certificateholder may, in the alternative, and at its sole discretion, by notice in writing to the Issuer:

- (i) within 28 days of service of a Request for Arbitration (as defined in the Rules); or
- (ii) in the event no arbitration is commenced,

require that a Dispute be heard by a court of law. If a party hereto gives such notice, the Dispute to which such notice refers shall be determined in accordance with Condition 21.4 and any arbitration commenced under Condition 21.2 in respect of that Dispute will be terminated. Each party who gives such notice and the recipient of that notice will bear its own costs in relation to the terminated arbitration.

21.4 In the event that a notice pursuant to Condition 21.3 is issued, the following provisions shall apply:

- (a) subject to paragraph (c) below, the courts of England shall have exclusive jurisdiction to settle any Dispute;
- (b) the Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and
- (c) this Condition 21.4 is for the benefit of the Certificateholders only. As a result, and notwithstanding paragraph (a) above, any Certificateholder may take proceedings relating to a Dispute (**Proceedings**) in any other courts with jurisdiction. To the extent allowed by law, the Certificateholders may take concurrent Proceedings in any number of jurisdictions.

The Issuer has in the Trust Deed appointed an agent for service of process and has undertaken that, in the event of such agent ceasing so to act or ceasing to be registered in England, it will appoint another person approved by the Delegate as its agent for service of process in respect of any Disputes or Proceedings. Nothing herein shall affect the right to serve process in any matter permitted by law.

USE OF PROCEEDS

The net proceeds of each Series of Trust Certificates issued under the Programme will be applied by the Issuer (i) for the purchase of a co-ownership interest in the Income Generating Assets of the relevant Series from the Bank on the Issue Date and (ii) to the extent that the proceeds of the Series of Trust Certificates exceed the value of the co-ownership interest acquired by the Issuer in the relevant Income Generating Assets on the relevant Issue Date, in payment to the Bank as Investment Manager under the Investment Management Agreement for investment in accordance with the provisions of the Investment Management Agreement.

DESCRIPTION OF THE ISSUER

General

DB Sukuk Company Ltd., a Cayman Islands exempted company with limited liability, was incorporated on 8 April 2008 under the Companies Law (as revised) of the Cayman Islands with company registration number 208176. The Issuer has been established as a special purpose vehicle for the sole purpose of issuing Trust Certificates under the Programme and entering into the transactions contemplated by the Transaction Documents. The registered office of the Issuer is at 87 Mary Street, George Town, Grand Gayman KY1-9002, Cayman Islands and its telephone number is +1 345 945 3727.

The authorised share capital of the Issuer is US\$50,000 shares of a nominal or par value of US\$1.00 each, 250 of which have been fully paid and issued. All of the issued shares (the **Shares**) are fully-paid and are held by Walkers SPV Limited as share trustee (the **Share Trustee**) under the terms of a declaration of trust (the **Declaration of Trust**) dated 24 September 2008 under which the Share Trustee holds the Shares in trust until the Termination Date (as defined in the Declaration of Trust). Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has the power to benefit the Certificateholders or Charities (as defined in the Declaration of Trust). It is not anticipated that any distribution will be made whilst any Trust Certificate is outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from, its holding of the Shares.

Business of the Issuer

The Issuer has no prior operating history or prior business and will not have any substantial liabilities other than in connection with the Trust Certificates to be issued under the Programme. The Trust Certificates are the obligations of the Issuer alone and not the Share Trustee.

The objects for which the Issuer is established are set out in the Memorandum of Association of the Issuer as adopted on 8 April 2008.

Financial Statements

Since the date of incorporation, no financial statements of the Issuer have been prepared. The Issuer is not required by Cayman Islands law, and does not intend, to publish audited financial statements.

Directors of the Issuer

The Directors of the Issuer are as follows:

| <u>Name</u> | <u>Principal Occupation</u> |
|------------------|-----------------------------|
| David Egglisshaw | Business person |
| Rachael Rankin | Business person |

The business address of the Directors is 87 Mary Street, George Town, Grand Gayman KY1-9002, Cayman Islands.

There are no potential conflicts of interest between the private interests or other duties of the Directors listed above and their duties to the Issuer.

The Administrator

Walkers SPV Limited will also act as the corporate administrator of the Issuer (in such capacity, the **Corporate Administrator**). The office of the Corporate Administrator will serve as the general business office of the Issuer. Through the office, and pursuant to the terms of a corporate services agreement to be entered into between the Issuer and the Corporate Administrator (the **Corporate Services Agreement**), the Corporate Administrator will perform in the Cayman Islands various administrative functions on behalf of

the Issuer, including communications with shareholders and the general public, and the provision of certain clerical, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Administrator will receive various fees payable by the Issuer at rates agreed upon from time to time, plus expenses. The terms of the Corporate Services Agreement provide that the Issuer may terminate the appointment of the Corporate Administrator by giving one month notice to the Corporate Administrator or without notice upon the happening of any certain stated events, including any breach by the Corporate Administrator of its obligations under the Corporate Services Agreement. In addition, the Corporate Services Agreement provides that the Corporate Administrator shall be entitled to retire from its appointment by giving not less than one month notice in writing.

The Corporate Administrator will be subject to the overview of the Issuer's Board of Directors.

The Corporate Administrator's principal office is Walker House, 87 Mary Street, George Town, Grand Cayman, KY1-9002, Cayman Islands.

The Directors of the Issuer are all employees or officers of the Corporate Administrator. The Issuer has no employees and is not expected to have any employees in the future.

DESCRIPTION OF DUBAI BANK PJSC

Overview

Dubai Bank PJSC (**DB** or the **Bank**) was registered as a commercial bank in the Emirate of Dubai in 2002 and commenced operations on 22 September 2002.

In 2006, a decision was made to convert the Bank from a conventional commercial bank to an Islamic bank carrying out its business in compliance with *Sharia* rules and regulations to take advantage of the growth opportunities anticipated by management arising from the emerging Islamic banking sector. The conversion was implemented with effect from 1 January 2007. Following the conversion, the Bank changed its Arabic name to “Masref Dubai”.

DB’s core business units are Corporate and Institutional Banking, Treasury and Investment Services and Retail Banking, which, following DB’s conversion to an Islamic bank, are undertaken in compliance with *Sharia* principles and subject to broader associated Islamic ‘ethical banking’ standards. Since its conversion, DB has expanded rapidly and currently offers an increasingly wide range of *Sharia*-compliant products and services to retail, corporate and institutional clients through a network of 20 branches across the United Arab Emirates (**UAE**), namely in Dubai, Abu Dhabi, Al-Ain, Ras Al Khaimah, Sharjah, Fujairah, Ajman and Khorfakkan.

As part of its strategy to establish itself as the ‘bank of choice’ within the UAE, DB concluded its three-year strategic plan in November 2006 with emphasis placed on the opportunities for organic growth resulting from DB’s conversion to an Islamic bank, the retention and expansion of its non-Muslim customer base and the leveraging of DB’s existing relationships with government entities and related companies within the Dubai Holdings and Emaar Properties groups (each as defined below).

The financial information in this section stated as being as at, or for the six months ended, 30 June 2008, is derived from, unless stated otherwise, the Interim Financial Statements (as defined in “*Selected Financial Information*”) which are unaudited.

Key balance sheet information of DB as at 30 June 2008, 31 December 2007, 31 December 2006 and 31 December 2005 was as follows:

| | As at 30 June | As at 31 December | | |
|--------------------------------------|----------------------------------|--------------------------|-------------|-------------|
| | 2008 | 2007 | 2006 | 2005 |
| | <i>AED million (USD million)</i> | | | |
| Key Balance Sheet Information | | | | |
| Total assets | 15,759.1 | 10,917.3 | 5,559.1 | 4,781.2 |
| | (4,291.1) | (2,972.7) | (1,513.7) | (1,301.9) |
| Total customer deposits | 12,860.0 | 7,734.5 | 4,478.4 | 3,716.8 |
| | (3,501.7) | (2,106.1) | (1,219.4) | (1,012.1) |
| Shareholders equity | 2,094.7 | 2,047.2 | 639.6 | 552.5 |
| | (570.4) | (557.4) | (174.2) | (150.4) |

For the six months ended 30 June 2008, and for the years ended 31 December 2007, 31 December 2006 and 31 December 2005, DB’s net profit was as follows:

| | For the six months ended 30 June | For the year ended 31 December | | |
|------------------|---|---|-------------|-------------|
| | 2008 | 2007 | 2006 | 2005 |
| | <i>AED million (USD million)</i> | | | |
| Net profit | 232 | 211 | 105 | 103 |
| | (63.2) | (57.5) | (28.6) | (28.0) |

The head office of DB is located on Sheikh Zayed Road (Dubai Trade Centre complex), P.O. Box 65555, Dubai, UAE and its telephone number is +9714 3365555. DB is regulated by the UAE Central Bank (the **Central Bank**).

History

On 15 January 2001, the Government of Dubai, the then owner of DB, transferred full ownership of the Bank to Emaar Properties PJSC (**Emaar Properties**) which undertook a substantial restructuring programme of the Bank's corporate profile, activities and capital structure in line with the UAE Companies Law. DB was subsequently registered under the Commercial Companies Law No. 8 of 1984 (as amended) as a public joint stock company. The Bank obtained a banking licence from the Central Bank on 5 August 2002.

With effect from 30 June 2005, Emaar Properties sold 70 per cent. of its shareholding in the Bank to Dubai Group LLC (**Dubai Group**). On 6 April 2006, the board of directors of the Bank (the **Board**) and its shareholders resolved to convert DB into a *Sharia*-compliant Islamic bank.

As part of the conversion process to an Islamic bank, DB was required to migrate existing contractual arrangements into a *Sharia*-compliant legal framework. In this context, to deal with the nature of certain relevant asset classes, DB (i) divested its credit card portfolio to Dubai First LLC and (ii) sold its non-*Sharia*-compliant assets to Dubai Financial under a repo arrangement pursuant to which the assets were held by a special purpose vehicle for subsequent repurchase. DB has assigned the right to repurchase the assets to Dubai Banking Group (**DBG**). Apart from a few small customer accounts, DB did not lose any of its customer base following the conversion of its conventional banking products into *Sharia*-compliant equivalent products.

With effect from 6 May 2008, Dubai Group consolidated its investments in its wholly-owned subsidiary Dubai Islamic Investment Group (**DIIG**) under the DBG umbrella, to form a global *Sharia*-compliant investment company.

Shareholders and Capital Structure

Shareholders

DBG currently holds 100 per cent. of the shares of DB. Dubai Group holds 70 per cent. of the share capital of DBG and Emaar Properties holds the remaining 30 per cent.. Dubai Group is a wholly-owned subsidiary of Dubai Holding LLC (**Dubai Holding**) which is owned 99.67 per cent. by Sheikh Mohammed bin Rashid Al Maktoum, the ruler of Dubai. DBG is the global *Sharia* investment company of Dubai Group and has interests ranging from banking and *Retakaful* (**Islamic Insurance**) to lifestyle activities such as *halal* food production and distribution. Dubai-based Emaar Properties is one of the world's largest real estate companies by market capitalisation and has been listed on the Dubai Financial Market exchange since 26 March 2000.

As a result of transferring the shareholding of DIIG from other parts of the Dubai Holding group to DBG, the shareholding of Emaar and Dubai Group will be changed to reflect this. It is therefore expected that the shareholding of Dubai Group in DBG will be increased slightly from its current level of 70 per cent. and that of Emaar will be reduced by an equal amount from the 30 per cent. currently held by it.

Fadel Al Ali is the Executive Chairman of Dubai Holding, Commercial Operations and represents Dubai Group as Chairman of the Board. Mr. Soud Ba'alawy, the Executive Chairman of the Dubai Group, is the Vice Chairman of DB.

To date, Dubai Group and Emaar Properties have not required DB to distribute any of the profits that it has generated in order to help facilitate the Bank's current expansion plans and capital requirements.

Capital Structure

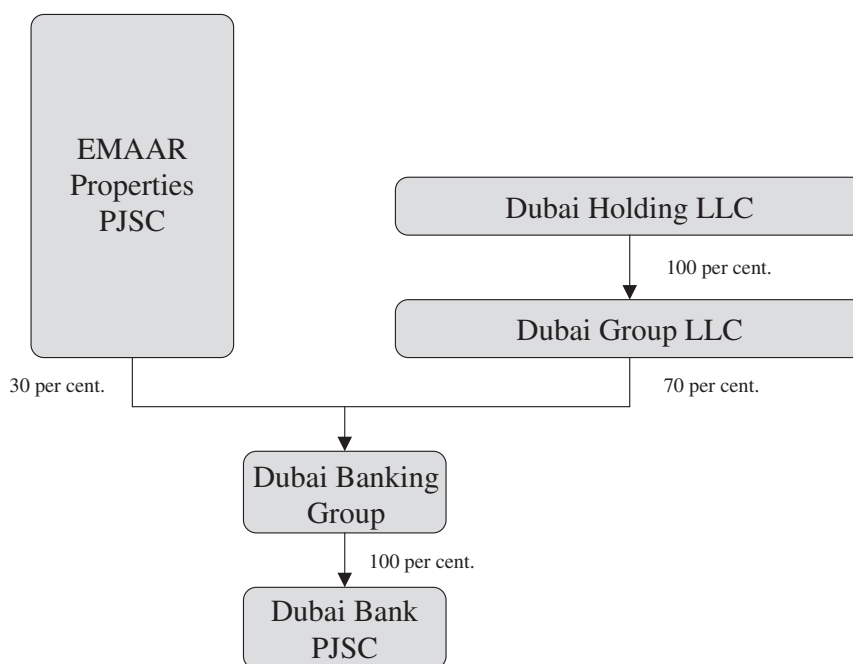
At an Extraordinary General Meeting of shareholders held on 22 January 2006, it was resolved to increase DB's share capital by AED 1 billion (USD 272 million) (from AED 500 million (USD 136 million) to AED

1.5 billion (USD 408.4 million)) by undertaking a 2 for 1 rights issue in respect of the existing share capital, which was completed in March 2007.

As at 30 June 2008, as well as at 31 December 2007, DB's authorised share capital was AED 1.5 billion (USD 408.4 million) and its issued and paid up share capital was AED 1.5 billion (USD 408.4 million) (compared to AED 500 million (USD 136 million) as at both 31 December 2006 and 31 December 2005). The issued capital comprises 50 million shares of AED 10 each.

The shares of DB are not listed.

Pursuant to DB's current articles of association, non-UAE nationals can hold up to a maximum of 49 per cent. of the total share capital of the Bank.



Strategy

DB's primary objective is to establish itself as the leading Islamic 'bank of choice' for both Muslim and non-Muslim customers primarily focused within the UAE. The Bank's business model is designed to appeal to those seeking *Sharia*-compliant solutions as well as those seeking ethical banking solutions. DB defines its strategic objectives within a three-year rolling period. This allows it to refine its long-term strategy and develop short-term specific strategic and business goals. In November 2006, DB concluded its first three-year plan in anticipation of its conversion to a *Sharia*-compliant bank. Management believes that the growth achieved in DB's profitability since conversion to an Islamic bank, and the development of DB's Retail Banking operations since 1 January 2007, are testimony to the successful implementation of DB's strategic plan.

In particular, DB continues to pursue the following strategic objectives in the Corporate and Institutional Banking, Treasury and Investment Services and Retail Banking units:

- Corporate and Institutional Banking. To enhance its corporate and institutional banking services through the following strategic initiatives:
 - diversifying and expanding its corporate client portfolio while maintaining its strategic relationships with companies within the Dubai Holding and Emaar Properties groups;
 - developing its asset base and building a more diversified basket of assets exposed to selected corporates and high net-worth individuals;

- developing a small and medium-sized enterprises (**SME**) sector portfolio through judicious risk measurement to augment income without impairing the risk profile of its assets;
 - focusing on increasing fee and commission income through aggressive follow-up with clients as well as improving margins;
 - improving the Bank’s exposure with locally-based teams in other UAE emirates exhibiting significant growth patterns, for example, Abu Dhabi, Fujairah, Ajman, Ras Al Khaimah and Sharjah; and
 - geographically diversifying the Bank’s assets outside the UAE in GCC (Cooperation Council for the Arab States of the Gulf) countries and selectively in other emerging markets.
- Treasury and Investment Services. To consolidate the position of its treasury and investment services unit through the following strategic initiatives:
 - increasing the uptake of investment services products by cross-selling to selected retail banking clients;
 - broadening the scope of its investment services capacity to allow customers to benefit from DB’s developing *Sharia*-compliant product range (including investment, hedging, foreign exchange operations and fixed income, equity and commodity markets access);
 - developing its direct risk management advisory capabilities; and
 - identifying opportunities by “white labelling” (bulk purchase of trusts/units for distribution by DB to its customers) *Sharia*-compliant asset and wealth management products and services.
 - Retail Banking. To expand its core Islamic finance business by enhancing retail banking products and services through the following strategic initiatives:
 - continuing the expansion of its retail banking network, with a target of expanding the branch network by up to 10 new branches every year for the next three years;
 - focusing on developing alternative delivery channels to widen the scope and depth of its business segments, including the development of SMS banking, internet banking and telephone banking operations;
 - placing increased focus on marketing campaigns to promote existing product lines and launch new products and services (including the Kunooz Value Plus Account, card products and increased access to DB’s range of investment services products); and
 - emphasising service quality and further developing customer-orientated systems to promote the Bank as a preferred service provider in the retail sector.

The implementation and development of DB’s strategic objectives is continually monitored and reviewed by its management through the internal Management Committee, comprising the Chief Executive Officer (**CEO**) and the Bank’s executive management team. The Management Committee meets at least monthly and reports the performance to the Board on a quarterly basis.

Although DB’s strategic plan focuses primarily on organic growth opportunities (including those resulting from the increased consumer demand for Islamic banking services and *Sharia*-compliant banking products), management may seek to supplement this growth profile with strategic sectoral and/or geographical acquisitions if appropriate opportunities arise. In addition, management continues to monitor the Bank’s capitalisation profile so as to be able to take advantage of funding opportunities as they arise.

Following the recent announcement by Dubai Group of the consolidation of its investments in financial institutions in its wholly-owned subsidiary Dubai Islamic Investment Group and its shareholding in DB under the Dubai Banking Group umbrella, the strategy of the Bank is likely to be reviewed in the near future to ensure that it is aligned with the aspirations of the new group.

Funding

The Bank's financing and investment businesses have grown steadily since its conversion to an Islamic bank. This growth, combined with its recent infusion of equity capital, has resulted in the Bank's asset base growing at a faster rate than its liabilities. While the Bank is continuing to expand its branch network, the Bank expects that it will take time for its branches to mature and attain the targeted volume of deposits. As a result, the Bank intends to diversify its funding base, including accessing the Islamic markets to help fund its expansion. In the medium term, the Bank intends to use the funds it receives from the Sukuk offering to meet the financing requirements of its corporate and retail customers. In the future, the Bank may consider increasing its equity share capital through its existing shareholders or by way of a public or private offering.

Business Activities

DB's principal activities are focused around its core business units: Corporate and Institutional Banking, Treasury and Investment Services and Retail Banking. To date, the Bank's operations have focused primarily on the domestic market within the UAE, although the Bank has an expanding deposit and facility portfolio based in the GCC. In terms of the constituent breakdown between the Bank's core units, as at and for the 6 months ended 30 June 2008 (i) Corporate and Institutional Banking accounted for approximately 67 per cent. of the Bank's total assets (excluding unallocated assets), 76 per cent. of the Bank's customer deposits and 49 per cent. of the Bank's net profit (excluding unallocated income/expenses), (ii) Treasury and Investment Services accounted for approximately 8 per cent. of total assets (excluding unallocated assets) and 22 per cent. of net profit (excluding unallocated income/expenses), and (iii) Retail Banking accounted for approximately 25 per cent. of the Bank's total assets (excluding unallocated assets), 19 per cent. of the Bank's total customers' deposits and (8) per cent. of the Bank's net profit (excluding unallocated income/expenses).

Below is an overview of DB's key business activities.

Corporate and Institutional Banking

DB's Corporate and Institutional Banking unit designs and offers business solutions to both SMEs as well as the large corporate market segment through dedicated teams. Operating within a *Sharia*-compliant framework, the Bank's Corporate and Institutional Banking unit seeks to provide innovative financing solutions for all stages of the business cycle. Since converting into a *Sharia*-compliant bank in 2007, the Bank's Corporate and Institutional Banking products, while mirroring conventional products, have been structured in a *Sharia*-compliant manner.

In addition to a full range of banking account options, the products offered by DB include goods financing and specific Islamic financing products such as:

- Islamic covered drawings (the equivalent of conventional overdraft protection) whereby the customer's overdraft application is routed through a commodity transaction and the funds resulting from the trade are credited to a Short Term Investment Account (**STI**). The customer is entitled to receive profit through a current account linked to the STI account while simultaneously paying profit on the commodity transaction;
- letters of credit and guarantee;
- letters of credit murabaha (equivalent to conventional letter of credit refinance facilities);
- goods murabaha (equivalent to conventional invoice discounting) whereby the Bank buys tangible assets at the customer's request and sells them to the customer on a deferred-payment basis at a pre-agreed mark-up price;
- Commodity murabaha (equivalent to a conventional trust receipt product) whereby the customer either (i) buys commodities from the Bank on a deferred-payment basis and then resells the commodities for cash to a third party or (ii) appoints the Bank as an agent to sell commodities to brokers on its behalf to create liquidity;

- Ijara Muntahia Bittamleek (equivalent to a conventional lease to own products) which is used for property that is constructed and available whereby the Bank purchases the property and leases it to the client for the term of the financing and ultimately transfers title to the property to the client once all instalments are paid; and
- Ijara Mawsufa Bithimma (equivalent to conventional forward lease solutions) which is used for property to be constructed whereby the Bank purchases the land from the customer or a third party seller and appoints the customer as an agent of the Bank to construct the property. The customer signs agreements with an independent contractor and a consultant to commence the construction of the property and, as construction progresses, the Bank effects payments against invoices received from the contractor. Once completed, the property is leased to the client and title is ultimately transferred to the client once all instalments are paid.

DB continues to develop its product base and has introduced two new deposit accounts targeted at corporate (and high net worth) customers, with a third product ('Sukuk-linked Wakala') under development: (i) the 'Flexi Wakala' (an alternative to a conventional call account which gives customers the flexibility to add or withdraw funds from the investment as required); (ii) the 'Flexi-Fixed Wakala' (an enhanced alternative to a conventional fixed deposit which gives customers the flexibility to add or withdraw funds from the investment at periodic intervals); and (iii) the 'Sukuk-linked Wakala' (an investment where the customer's funds are invested in a pool of Sukuk assets, giving the customer the flexibility to add or withdraw funds from the investment at periodic intervals and enabling the customer to share any profit in excess of the expected return with the Bank on a 50:50 basis).

DB currently has approximately 210 corporate clients and 100 institutional banking clients, to whom designated corporate relationship managers provide a dedicated point of contact throughout the entire economic cycle, assessing their cash management, treasury, trade finance, working capital finance, asset and project finance requirements. Due to the expanding nature of its corporate client base, DB established an SME division in July 2007 to target customers who have had profitable businesses operating for at least two years with relatively low turnover by providing niche financing solutions. These customers are typically looking for facilities of between AED 1 million and AED 10 million. The Corporate and Institutional Banking unit's services extend to all key industrial and commercial sectors.

Treasury and Investment Services

DB's Treasury and Investment Services unit has a dual role as the unit managing the Bank's liquidity and funding requirements as well as undertaking the Bank's proprietary investment activities and providing fee-based investment services to the Bank's customers.

Treasury Group

The Treasury Group is responsible for managing DB's liquidity requirements and acts under the supervision of the Assets, Liabilities and Risk Management Committee. This group also manages DB's profit rate, risk profile, asset/liability maturity mismatches and proprietary investment portfolio primarily through inter-bank placements, investments in *Sharia*-complaint trust certificates (Sukuk), *Sharia*-compliant equities and foreign exchange trading. As at 30 June 2008, DB's investment portfolio was valued at AED 698.1 million (USD 190.1 million) for accounting purposes compared to AED 1,022.6 million (USD 278.4 million) as at 31 December 2007, AED 499.6 million (USD 136.0 million) as at 31 December 2006 and AED 341.6 million (USD 93.0 million) as at 31 December 2005.

The Treasury Group's capital market activities also include DB's acting as arranger and bookrunner in the context of *Sharia*-compliant trust certificates (Sukuk) transactions and *Sharia*-compliant equity offerings. In this, the Treasury Group leverages off of the Bank's strong relationship with the Dubai Holding and Emaar Properties groups as well as the existing relationships with its corporate clients and global investment banks to ensure referrals.

Investment Services Group

Prior to its conversion into an Islamic bank, DB's Investment Services Group provided investors with a wide range of services including investment banking, advisory services, capital markets, asset management, wealth management (discretionary and non-discretionary), brokerage and private equity investment services. Following its conversion, DB has continued to service outstanding conventional Investment Services Group obligations (after having obtained Sharia Advisory Board approval) while developing its *Sharia*-compliant investment product base for new customers. New products and services currently offered or planned include local and international brokerage and custody facilities (offered in conjunction with Dubai Tadawul LLC), foreign-exchange forward contract equivalent products, profit rate swaps, Sukuk-linked deposits, the Foursa Deposit account (equivalent to a dual currency deposit structure) and the Islamic Gateway Investment Fund (in conjunction with SHUAA Capital psc) to attract direct investment. The Investment Services Group's services and products are targeted at both corporates (for example, *Sharia*-compliant hedging equivalent products and foreign exchange services) and at providing direct investment opportunities to high net worth individuals and institutional investors.

Retail Banking

The Bank's retail banking clients are currently segmented into "Core" clients, "Prestige" clients and "Royal Banking" clients. The latter two segments are clients who meet certain prescribed qualification criteria and, accordingly, are eligible for preferential products and services. The Bank offers its customers a range of retail products including *Sharia*-compliant current and savings accounts in addition to certain specialised products such as:

- Auto finance: Under the Bank's Markaba auto finance scheme, the Bank finances vehicle purchases for individuals and businesses pursuant to a murabaha structure by purchasing approved vehicles and selling them to the relevant customer at a predetermined mark-up price paid back in instalments.
- Covered cards: DB's covered card product is a *Sharia*-compliant flexible alternative to cash payments with the added facility of cash withdrawals. The card is accepted at over 20 million outlets and over 80,000 ATMs worldwide. Since launching the covered card product in April 2007, in excess of 23,000 cards have been issued on a tiered basis to eligible customers (incorporating "platinum", "gold" and "silver" covered cards).
- Personal finance: The Bank's Sanad financing scheme allows customers to source funds for personal financing needs in a range of circumstances in accordance with *Sharia* principles.
- Property finance: The Mulki property finance scheme allows customers to finance purchases of land, properties (including villas and apartments) which have been or are being built by an approved developer, as well as properties on the secondary market or intended for self-construction, in each instance approved on a case-by-case basis.
- Goods finance: DB's Souk goods finance scheme enables customers to finance the purchase of goods (for example, electronic appliances) pursuant to a murabaha structure similar to the Markaba auto finance scheme.

In delivering its Retail Banking services, the Bank has a specific focus on the creation of innovative retail banking products tailored to the developing needs of its customers. In early September 2007, the Bank launched its Kunooz Value Plus Account, a product unique in the UAE, offering customers a competitive rate of profit distribution in conjunction with a right to participate in periodic prize draws.

DB currently offers its retail banking services to over 48,000 customers through a network of 20 branches (nine in Dubai, four in Abu Dhabi, two in Sharjah and one each in Al-Ain, Ras Al-Khaimah, Fujairah, Ajman and Khorfakkan), 25 automated teller machines (ATMs), and six cash deposit machines (CDMs). The Bank has undertaken a branch expansion programme under which it aims to open up to 10 branches annually in the next three years to serve the growing and more sophisticated needs of its customers. DB also intends to introduce separate customer service centres that will not have a cash counter but will have ATMs and CDMs and will be staffed by Personal Banking Officers who will market the Bank's products and services. The

Bank's distribution network is underpinned by its Retail Banking direct sales marketing team (currently comprising in excess of 250 staff) who act as a first point of liaison to retail customers in promoting and distributing retail products.

In addition to its physical delivery network, the Bank has actively sought to expand its alternative distribution channels during 2007 by adapting IT access (including the development of internet banking), SMS-banking and telephone banking capacity, in line with its strategic objectives.

The Bank's retail products are supported by the adoption of stringent credit criteria, including specified lending limits for each retail product. See further "*Risk Management*".

Subsidiaries and Strategic Relationships

In early 2006, DB incorporated Dubai Tadawal LLC (UAE) as a wholly-owned subsidiary which was subsequently licensed by the Emirates Securities and Commodities Authority in June 2007 to undertake securities and commodities brokerage activities as well as custodial services in the domestic market, in each case in compliance with *Sharia* principles. The Bank also enjoys strategic benefits by virtue of Emaar Properties and Dubai Holding share holdings in DBG.

Competition and Competitive Advantages

The Bank faces competition in all of its principal business areas. In its Retail Banking and Corporate and Institutional Banking units, the Bank's principal competitors include both banks that are locally incorporated as well as certain foreign banks operating in the UAE, in each case incorporating both conventional and Islamic banking institutions. As at 30 June 2008, there were 50 operating banks holding full commercial banking licences in the UAE, of which 22 were locally incorporated, and of which seven were Islamic banks operating in the country.

Within its investment banking and capital market activities, DB also competes with major international investment banks for transaction mandates.

It is expected that competition from other banks, both conventional and Islamic, and specialist Islamic financing companies (such as Amlak and Tamweel) will continue as additional institutions enter the sector. Recently, new banks such as Hilal Bank, based in Abu Dhabi, and Noor Bank, based in Dubai, began operations. DB expects that this trend will continue in the foreseeable future.

Despite the relatively high level of competition in the banking sector in the UAE, the Bank expects the recent and continuing growth of the economy to lead to an overall growth in demand for banking services, particularly Islamic products.

DB believes that it enjoys a number of key competitive advantages, including the following:

Innovative products and services

Innovation is a key driving concept for the Bank, and DB provides its customers with a wide range of innovative products for both Retail Banking and Corporate and Institutional Banking customers allowing it to best meet the developing needs of its diverse client base. Examples of products successfully launched since the conversion include the Kunooz Value Plus Account, the covered card product, and the Foursa Islamic deposit account. In addition, DB continues to develop its product base, most notably in the Treasury and Investment Services unit. This innovation is supported by the Bank's *Sharia* Advisory Board members, who seek to be both pragmatic and efficient in terms of supporting the development of alternative *Sharia*-compliant products.

Quality of service and speed of response

DB believes that it can distinguish itself from its competitors by providing a very high level of quality customer service. Employees are trained regularly in client service techniques as well as new product and market developments. In addition, the Bank is in the process of implementing a random 'mystery shopper'

customer review procedure throughout its branch network. DB has been recognised with a number of awards for work undertaken on the conversion process to *Sharia*-compliance and for the successful implementation of its Islamic bank product range, including being awarded the ‘Superbrands’ award for the third year in a row from the independent Superbrands Council from over 3,000 active brands throughout the UAE, and received two awards from World Finance (the publication arm of World News Media) for the ‘Best New Islamic Bank in the Middle East’ and the ‘Best Islamic Product Provider’.

Diversified distribution channels and accessibility of customers

As part of its strategic objectives, the Bank has invested in a variety of alternative banking channels, including SMS banking, internet banking and telephone banking. The Bank has also established plans to actively increase more traditional distribution channels, including branches, ATMs and CDMs in the immediate future to further enhance the Bank’s accessibility to customers.

Links with shareholders

By virtue of its shareholding structure, DBG and in turn DB, each benefits from a strategic relationship with the Dubai Holding and Emaar Properties groups, off which the Bank actively leverages.

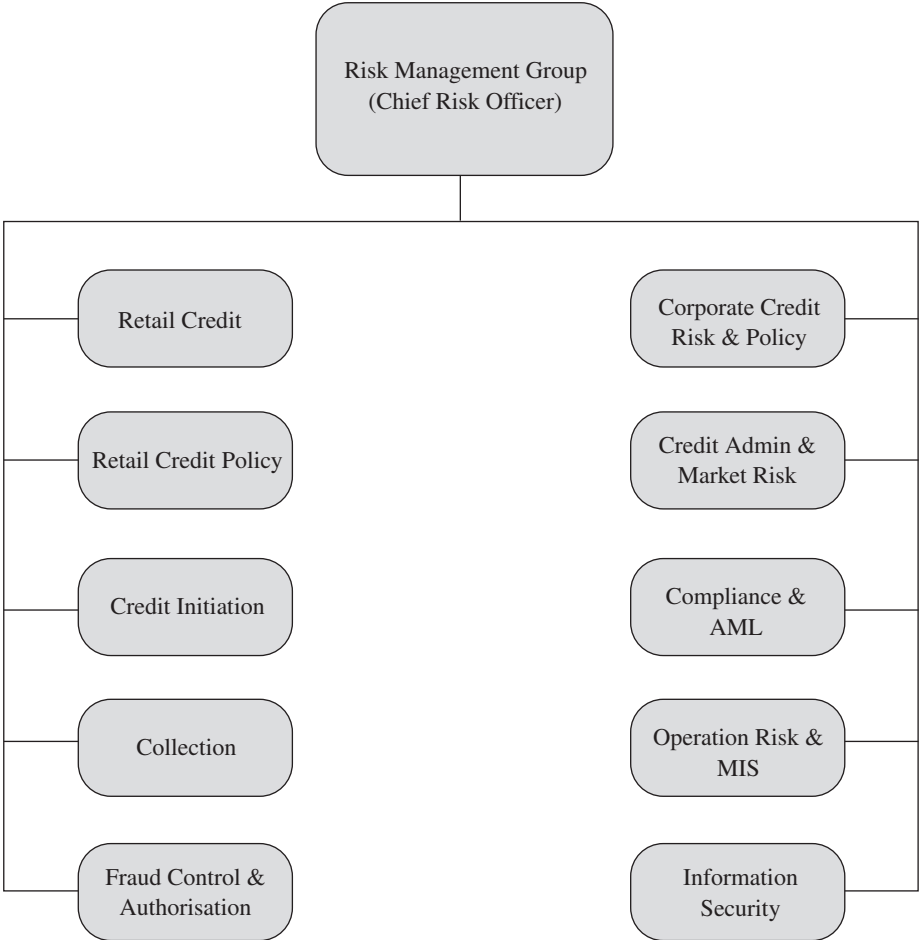
Risk Management

The Bank’s Risk Management Group (**RMG**) is a key component of the Bank’s framework, whose philosophy is focused on identification, capturing, measuring, monitoring, mitigating and controlling various dimensions of business risks with the objective of protecting asset values and income streams such that the interests of the Bank’s depositors are protected while maximising the returns for the shareholders. DB aims to ensure:

- that risk approval and monitoring processes are structured around appropriate levels of authority and responsibility within the organisation, with a clear segregation between the business and risk management functions;
- well-documented policies for assessment, measurement, monitoring and controlling of risk;
- that an independent audit function reviews compliance with policies and procedures;
- constant review and upgrading of systems and staff skills so that the Bank remains at the forefront of development and implementation of risk management techniques; and
- ultimate supervision by the Sharia Advisory Board.

Risk Governance

DB’s risk governance structure is headed by the Chief Risk Officer (CRO) and is organised as set out in the diagram below:



Risk Committees

Asset, Liability and Risk Management Committee (ALRMC)

The ALRMC plays a dual role with respect to both the Assets and Liabilities Committee (ALCO) and risk management.

Its role with respect to the ALCO is to develop and review the ALCO policy and to actively measure and monitor the market, profit rate and liquidity risks. The ALRMC also manages DB’s asset and liability structure and balance sheet planning and management, including the development of its contingency liquidity plan, and stress tests the Bank’s portfolio based on alternative scenarios with respect to profit rates, liquidity gaps and market fluctuations. The ALRMC also determines product pricing for deposits and advances, reviews the Bank’s provisioning policy and ensures the Bank’s capital adequacy is in accord with the applicable regulatory requirements.

The ALRMC’s primary role with respect to risk management is to develop the strategy and policy framework for implementing the Bank’s integrated enterprise-wide risk management programme and to ensure that the Bank implements the best risk management practices. The ALRMC’s responsibilities include:

- developing and reviewing all policies and procedures relating to credit, market and operational risk;
- establishing risk concentration limits, economic sectoral limits and portfolio diversification tools and processes for managing risks;

- managing the Bank's balance sheet and establishing contingency procedures in respect of liquidity risk;
- managing liquidity policies;
- reviewing and implementing Basel II requirements;
- developing and monitoring business continuity and disaster recovery planning; and
- developing and monitoring the Bank's expense management policy as well as its authorisation and empowerment policy guidelines.

The ALRMC's members include the Bank's CEO, the Chief Financial Officer (**CFO**), the CRO, the Chief Operating Officer (**COO**), the Head of Retail Banking, the Head of Corporate and Institutional Banking and the Head of Treasury and Investment Services.

Investment and Credit Committee (ICC)

The ICC meets on a weekly basis to approve all Corporate, Treasury, Investment and Institutional banking groups' credit and investment proposals as well as all proposals for restructuring of approved facilities, initiating legal action and write offs. The ICC also reviews monthly risk management information systems (**MIS**) and weekly overdue claims to monitor the Bank's progress and review expired facilities. Additionally, the ICC performs quarterly reviews of the lists of all review proposals approved by delegated authorities below the ICC's delegated authority limit.

The ICC's members include the Bank's CEO, CRO, and the heads of the Corporate and Institutional Banking and Treasury and Investment Services units.

Board Credit and Market Risk Committee (BCMRC)

The BCMRC is the board committee responsible for reviewing and approving all Corporate, Treasury, Investment and Institutional banking groups' credit and investment proposals that are referred to it by the ICC. The BCMRC establishes the bank-wide risk limits and reviews monthly risk MIS to monitor the Bank's progress. The members of the BCMRC carry out their responsibilities by written correspondence in lieu of in-person meetings.

The BCMRC's members include the Chairman of the Board and two independent non-executive directors.

Board Audit Committee (BAC)

The BAC is responsible for assisting the Board to fulfil its supervisory role by establishing and reviewing the applicable corporate governance framework, the risk management framework and the quality of internal control systems. The BAC ensures the independence of DB's internal audit function. The BAC also agrees the Bank's internal audit plan.

The BAC meets quarterly and its members include three independent non-executive directors, the CEO and the Chief Internal Auditor.

Credit Risk

Credit risk refers to the potential risk of financial loss if a customer or counterparty fails to meet its commitments in accordance with the agreed terms. DB is exposed to credit risk through its financing, trading, treasury and investing activities and when it acts as an intermediary on behalf of its customers or third parties or issues guarantees.

DB controls credit risk by setting limits for individual and group customers as well as for financial institutions, countries and industry segments. The Bank also monitors credit exposures and continually assesses the creditworthiness of its counterparties. Additionally, the Bank obtains security where appropriate and limits the duration of exposures. DB's principal industry, bank and customer risk limits are set out in

detailed Retail Banking and Corporate and Institutional Banking Credit Policy and Parameter guidelines which are subject to regular review. Approval of credit exposure to individual customers is controlled through a tiered hierarchy of delegated approval authorities based on the amount of facilities to be allowed.

Credit Approval Philosophy

DB operates a comprehensive approach to credit applications, with approval authorities resting with credit committees and joint authorities. Every product (whether retail or corporate) has detailed policy guidelines and processes for credit risk management, which are approved by the Board. Retail credit applications are usually sourced from individuals employed by companies that are pre-approved by DB, although the Bank receives a number of applications through its distribution network. Corporate and institutional customer applications are typically sourced through the Bank's various relationship managers.

Retail Banking Credit

Retail Banking's credit approval philosophy incorporates a medium-risk appetite, active monitoring of asset quality and maintenance of balance between risk and reward. DB has a Credit Initiation Unit (CIU) in place which is staffed by retail credit analysts. DB strictly adheres to its retail credit criteria and has specified lending limits for each of its retail products. Any application that is for an amount over the financing limit for the CIU must be approved jointly by the head of CIU and one of the head of Retail Banking Credit, the Retail Credit Policy Head, the CRO or the CEO as the quantum passes certain prescribed thresholds. The CIU has adopted best practices in portfolio management and credit underwriting and a Fraud Control and Authorisation Unit is also in place to monitor application and transactional fraud risks. In a default scenario, DB's collection unit takes control of recovery from defaulting customers.

The Retail Credit team has adopted a clear and streamlined application process. Under this process, a proposal is sourced by the relevant business channel (branch and retail sales). It is then sent to the CIU for analysis and approval in accordance with documented internal risk guidelines. Once this is completed, disbursement (by DB's Islamic Finance Operations department) can be made.

The ALRMC is also responsible for preparing the risk criteria for new products and segments. All policy change proposals, new credit tests, systems and process changes that may result in an enhanced credit risk are required to be reviewed and approved by the ICC and/or the Board of Directors, whilst product portfolios are monitored by the Operational Risk and MIS Department on a daily, weekly, monthly and quarterly basis.

Corporate and Institutional Credit

The Credit Risk and Policy team has overall responsibility for the centralised credit policy and procedure formulation, country risk and credit exposure reporting, control and risk-related regulatory compliance. The portfolio, along with every account, is reviewed and evaluated annually under the portfolio management and credit policy through the Credit Administration team which reviews and monitors the credit and investment risk portfolio, examining risk mitigation and distribution.

Through the Credit Risk and Policy team, every approved corporate credit is reviewed at least once every 12 months through a full credit proposal. Classified credits are monitored with increased frequency under which action plans are developed and the outcome of remedial measures are monitored on a regular basis.

The ALRMC monitors accounts according to industry concentration limits, geographic distribution, risk rating categories, individual obligor/group limits, product, security and collateral, pricing, and exposure classification, in line with Basel II requirements. DB uses a 10-grade risk rating system to assess the credit risk of its corporate and institutional customers, which is briefly outlined below:

| Code | Description/Risk Category | Model Score | Conversion to rating agency scales | |
|---------|---------------------------|--------------|------------------------------------|-------------|
| | | | Moody's | S&P |
| 1..... | Sovereign | 191 - 200 | Aaa | AAA |
| 2..... | Exceptional | 181 - 190 | Aa3 - Aa1 | AA- - AA+ |
| 3..... | Excellent | 151 - 180 | A3 - A1 | A- - A+ |
| 4..... | Good | 121 - 150 | Baa3 - Baa1 | BBB- - BBB+ |
| 5..... | Average | 81 - 120 | Ba3 - Ba1 | BB- - BB+ |
| 6..... | Below Average | 80 and below | B3 - B1 | B- - B+ |
| 7..... | Weak | | C1 | C+ |
| 8..... | Substandard | | C2 | C |
| 9..... | Doubtful | | C3 | C- |
| 10..... | Loss | | D | D |

Under DB's Corporate and Institutional Banking credit approval process, approval authority rests with the ICC for all facilities up to AED 15 million (unsecured) and AED 35 million (secured), and with the BCMRC for all facilities above AED 15 million (unsecured) and AED 35 million (secured).

The approval process for all facilities consists of five stages:

- the Corporate and Institutional Banking unit submits a proposal to the RMG;
- the RMG reviews the proposal and passes the proposal with its recommendation on to the ICC;
- the ICC assesses the business case and RMG recommendation, approves proposals within its delegated limits and forwards cases for assessment on to the BCMRC for proposals beyond its delegated limits;
- the ICC or, as the case may be, the BCMRC makes a final decision; and
- the Credit Administration department of the RMG completes the necessary documentation and manages the credit implementation and post-approval administration.

Credit Approval Authorities

DB follows a joint approval model for approving financing, which must contain a risk management review and recommendation. The approval authorities comprise the Head of Corporate and Institutional Banking, the CRO, the CEO, the ICC and the BCMRC.

In addition to the approvals (set out above), Sharia Advisory Board approval in respect of legal documentation (rather than in respect of each discrete deposit or finance 'process') is required in cases where there are complex structures and/or facilities that have deviations from the standard products or terms and conditions. The decision of the Sharia Advisory Board is final and cannot be cancelled or modified by any authority within DB.

Portfolio Concentrations

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or in activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the counterparties' performance to developments affecting a particular industry or geographic location. The Bank's credit policies are structured to ensure that the Bank is not over-exposed to a given client, industry or geographic area through diversification of financing and investment activities.

| | As at* | As at 31 December | | |
|---|--------------------|--------------------|------------------|------------------|
| | 30 June | 2007 | 2006 | 2005 |
| <i>AED thousand (USD thousand)</i> | | | | |
| Portfolio Concentration | | | | |
| Gross Islamic Financing and Investing Assets | | | | |
| – by industry sector | | | | |
| Banks and financial institutions | – | 21,264 | 34,901 | 62,434 |
| | – | (5,790) | (9,503) | (17,000) |
| Construction and real estate | 2,237,928 | 1,029,171 | 119,172 | 96,982 |
| | (609,375) | (280,237) | (32,450) | (26,408) |
| Trade and manufacturing | 1,175,867 | 1,236,850 | 486,307 | 528,410 |
| | (320,182) | (336,787) | (132,419) | (143,883) |
| Government | 1,505,700 | 1,288,548 | 8,500 | 35,576 |
| | (409,993) | (350,864) | (2,314) | (9,687) |
| Personal | 3,030,195 | 1,917,363 | 645,467 | 852,494 |
| | (825,104) | (522,087) | (175,757) | (232,129) |
| Others** | 4,057,288 | 2,075,228 | 247,040 | 67,844 |
| | (1,104,775) | (565,072) | (67,268) | (18,474) |
| Total | 12,006,978 | 7,568,424 | 1,541,387 | 1,643,740 |
| | (3,269,429) | (2,060,837) | (419,711) | (447,581) |

* The numbers specified above as at 30 June 2008 are based on management accounts and are not contained in the Interim Financial Statements.

** These sectors include, inter alia, agriculture and allied activities; mining and quarrying; transport, storage and communications; and services.

| | As at* | As at 31 December | | |
|---|--------------------|--------------------|------------------|------------------|
| | 30 June | 2007 | 2006 | 2005 |
| <i>AED thousand (USD thousand)</i> | | | | |
| Portfolio Concentration | | | | |
| Gross Islamic Financing and Investing Assets | | | | |
| – by geographical areas | | | | |
| Within UAE | 10,835,395 | 6,553,633 | 1,448,997 | 1,552,314 |
| | (2,950,414) | (1,784,515) | (394,553) | (422,686) |
| Outside UAE | 1,171,583 | 1,014,791 | 92,390 | 91,426 |
| | (319,015) | (276,322) | (25,157) | (24,895) |
| Total | 12,006,978 | 7,568,424 | 1,541,387 | 1,643,740 |
| | (3,269,429) | (2,060,837) | (419,711) | (447,581) |

* The numbers specified above as at 30 June 2008 are based on management accounts and are not contained in the Interim Financial Statements.

The Bank's Provision Policy sets out the guidelines and policies for managing problem exposures and creating both specific and general provisions. The key elements in the policy are:

- classification of Non-Performing Assets (NPA);
- separate procedures for creating specific provisions for certain categories of risk assets;
- guidelines for the creation and review of general provisions; and
- classification of account categories.

Problem accounts are categorised as:

- Sub-standard – accounts which may lead to loss, due to adverse factors (either financial, economic, political or managerial) or due to weakening of security;

- Doubtful – the customer is considered a serious risk due to a deteriorating financial condition and repayment capability; or
- Loss – the customer is insolvent and unable to repay a major portion of the outstanding debt(s).

The ALRMC is responsible for the review of the provisioning policy and the periodic provisions. The ALRMC, with a view to developing the Bank's risk management policy, also reviews any exceptions in the provisions reports. The policy is applicable to all asset products (both retail and corporate) offered by the Bank as well as the Bank's proprietary investments. The ALRMC also creates general provisions from the Bank's retained earnings. The level of the general provision is reviewed annually based on the levels of retained earnings and bank financing, the past default history of the Bank's risk assets, and the risk characteristics of assets, markets and the different economic and geographical sectors. As is common practice in the UAE banking sector, DB's provisioning policy is structured around Central Bank guidelines which are not in accordance with IAS 39. Management believes this more appropriately reflects the industry's default risk profile.

The basic procedures for the creation of specific provisions for the Bank's various businesses are set out below:

Proprietary Investments

DB's investments, held under the Available-for-Sale and Held-for-Trading categories, are marked to market on a monthly basis. Any permanent diminution of the value of investments in the Held-to-Maturity category are written down.

Retail Banking

For all of DB's retail lending products (for example, auto, personal finance and covered cards), 100 per cent. provision of the amount overdue (net of any realisable collateral) is made at 180 days past the due date. Specific provision for residential mortgage finance is provided on the full amount of the outstanding dues of the customer (net of realisable value of tangible security) on the following basis:

- For past dues exceeding 180 days—20 per cent.
- For past dues exceeding 270 days—50 per cent.
- For past dues exceeding 365 days—100 per cent.

Corporate Banking

For all corporate financing, specific provisions are made on the total outstanding dues from the customer (net of any realisable collateral) based on the following account categories:

- Sub-standard—Nil
- Doubtful—50 per cent.
- Loss—100 per cent.

Specific provision is also made for any outstanding amount against approved covered drawing limits that are in excess as follows:

- Excess beyond 180 days—50 per cent.
- Excess beyond 365 days—100 per cent.

Profit accruals over assets overdue for more than 180 days are suspended and held in a separate account. Financing amounts are judged to be uncollectable after 365 days and are either written-off directly against the income statement or charged off by reducing a previously created specific provision.

Collections and recovery efforts for retaining financing are managed by DB's Collections team which has 14 staff members with varying degrees of expertise and experience. These staff are drawn from a wide cross-section of banks in UAE. The average level of experience for the Collections staff is approximately four years. With respect to retail customers, overdues under 90 days are pursued through soft collection policies (for example, telephone reminders). However, hard collection policies are initiated once overdues exceed 90 days (for example, customers are visited in person by the Collection officers to facilitate recovery/renewal). Legal action is initiated in case of persistent or long-term defaulters. With respect to corporate credits, relationship managers actively monitor overdue positions on a daily basis to facilitate recovery/restructuring.

In accordance with the Bank's Authority and Empowerment Policy guidelines, the Board is empowered to write-off non-recoverable financing.

The following table shows NPAs as at 31 December 2005, 2006 and 2007 and as at 30 June 2008.

| | Portfolio Outstanding Net of Future Profits | NPAs | Provisions Held / Impairment Provisions | NPAs / Portfolio Outstanding Net of Future Profits | Provisions / Actual NPAs |
|--------------------------------------|--|--------------------------|--|---|-------------------------------------|
| | <i>AED million (USD million)</i> | | | % | % |
| 31 December 2005 | 1,643 | 22 | 22 | 1.3 | 100 |
| | (447) | (6) | (6) | | |
| 31 December 2006 | 1,541 | 28 | 35 | 1.8 | 125 |
| | (420) | (8) | (10) | | |
| 31 December 2007 | 7,568 | 14 | 44 | 0.18 | 314 |
| | (2,061) | (4) | (12) | | |
| 30 June 2008* | 11,968 | 23 | 39 | 0.19 | 170 |
| | (3,259) | (6) | (11) | | |
| | As at 30 June* | As at 31 December | | | |
| | 2008 | 2007 | 2006 | 2005 | |
| | <i>AED million</i> | | | | |
| Performing funded facilities | 11,984 | 7,554 | 1,513 | 1,621 | |
| NPAs | 23 | 14 | 28 | 22 | |
| Gross funded facilities | 12,007 | 7,568 | 1,541 | 1,643 | |
| Impairment provisions (LLRs) | (39) | (44) | (35) | (22) | |
| Net funded facilities | 11,968 | 7,524 | 1,506 | 1,621 | |
| NPAs / gross funded facilities | 0.20% | 0.18% | 1.82% | 1.34% | |
| LLRs / gross funded facilities | 0.32% | 0.58% | 2.27% | 1.34% | |
| Provision coverage | 162.5% | 314.29% | 125.00% | 100.00% | |

* The numbers specified in the two tables above as at 30 June 2008 are based on management accounts and are not contained in the Interim Financial Statements.

Anti-Money Laundering and Know-Your-Customer

The Bank's Compliance department has five staff members and is part of the RMG. The main responsibilities of the department are to develop, implement and maintain a comprehensive, effective and efficient compliance programme that supports the requirements of the business, adhering to applicable regulatory requirements and standards. These include handling all Anti-Money Laundering (AML) and Know-Your-Customer (KYC) matters across the Bank.

All Bank employees are required to attend training on the above matters, and there are periodic programme development sessions for staff. The Bank has developed detailed policies on which the training is based, and the main areas covered in the policy are:

- Introduction and definition of money laundering;
- AML – legal and regulatory environment;
- Scope of AML policy;
- Regulatory/policy compliance;
- KYC;
- Risky accounts assessment;
- Compliance measures; and
- AML/KYC training.

Monitoring of the Bank's AML and KYC procedures is undertaken on a daily basis and daily reports are generated by the Compliance Unit in RMG. In cases where investigation is required, the relevant report is sent to the appropriate units. Any material breaches are subsequently highlighted, sent to the concerned unit for clarification, investigated and resolved. When necessary, a Suspicious Transaction Report is prepared and sent to the Central Bank for further action.

Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk but excludes strategic and reputational risk.

DB's operational risk issues are discussed in the ALRMC which is chaired by the Bank's CEO. DB has adopted the Standardised Methodology of Operational Risk Capital charge computation for regulator purposes. Operational Risk measurement benchmarks and key risk indicators are being developed through an Operational Risk Self Assessment (**ORSA**) process.

Operational risk is managed by a dedicated two-member team within the Bank. Business risk officers have been identified in each functional area to identify the events and evaluate the incidence of risk, probable losses and frequency thereof in each functional area. DB's Operational Risk team reviews the identified risks, controls and residual gaps and monitors the time lines for closing such gaps. The Internal Audit group validates the identified risk and the prevailing gaps.

Additionally, the Bank has also embarked on a business continuity plan. The business impact analysis phase of the plan has been completed and it is expected that the business continuity plan itself will be finalised in December 2008. Testing of the business continuity plan is expected to be carried out in early 2009. DB's Disaster Recovery site has also been operational since the beginning of 2008.

Market Risk

Market risk is the possibility of incurring a monetary loss as a result of fluctuations in profit rates, foreign exchange rates, equity prices and commodity prices. The Bank has set limits on the open position for foreign exchange which are monitored on a regular basis by its management.

Market risk is monitored in DB by the Market Risk unit in the Credit Administration department.

Currency Risk

The UAE dirham is the Bank's base currency. DB has a conservative policy towards exchange risks and as at 30 June 2008 had no significant open positions on any currency other than U.S. dollars. DB limits its U.S. dollar currency exposure to a maximum of USD 300 million and DB is currently within that limit. Exchange rate risk is measured using position reports showing the net long or short position for currencies, which are produced daily. Foreign exchange positions, and profit and loss on foreign exchange, are reviewed on a daily basis. All positions are daily marked to market in accordance with International Financial Reporting Standards.

Profit Rate Risk

Profit rate risk arises from the possibility that changes in the conventional interest rate will affect the future profitability or the fair value of financial instruments.

DB is exposed to profit rate risk as a result of mismatches or gaps in the amount of assets and liabilities and off balance sheet instruments that mature or re-price during a given period. This measures the effect on the net profit and accordingly allows the Bank to match profit related assets and liabilities. The impact of possible changes in the profit rates is measured and the profit rate gaps are reviewed to initiate corrective action in the Bank's funding profile to ensure that the overall profit rate risk remains within acceptable tolerances.

Equity Securities and Commodity Risk

As a part of its trading and investing activities, DB maintains trading positions in a variety of financial instruments. These instruments are subject to price risk, which is the risk that future changes in market conditions may make an instrument less valuable. The instruments are recognised at fair value and all changes in market conditions are tracked daily to measure how they affect net trading income at month ends. Exposure to such risk is actively managed in accordance with position and stop-loss limits set by management in response to changing market conditions.

Liquidity Risk

Liquidity is the ongoing ability to accommodate maturing liabilities and meet other contractual obligations in a timely and cost effective manner. Liquidity risk is the possibility that the Bank will be unable to meet its financial commitments as and when they are due. This may be caused by unusual market conditions and/or deterioration in the Bank's credit quality.

Liquidity risk is actively managed by Treasury and is also overseen by the ALRMC. To limit its liquidity risk, DB's management has arranged diversified funding sources, manages its assets with liquidity in mind and monitors its liquidity on a daily basis.

The following table sets forth a number of liquidity ratios for DB:

| | As at 31 December | | | As at* |
|--|-------------------|-------|--------|---------|
| | 2005 | 2006 | 2007 | 30 June |
| | (%) | | | 2008 |
| Liquidity ratios | | | | |
| Liquid assets / total assets | 62.64 | 63.04 | 41.82 | 45.51 |
| Customer deposits / total deposits | 94.84 | 94.67 | 89.74 | 96.69 |
| Net financing and investment assets / customer deposits | 52.81 | 44.78 | 110.51 | 98.49 |
| Net financing and investment assets / total assets | 41.05 | 36.07 | 78.29 | 80.37 |

* The numbers specified as at 30 June 2008 are based on management accounts and are not contained in the Interim Financial Statements.

General Risks Associated with the UAE Banking Sector

Please see "The United Arab Emirates Banking System and Prudential Regulation" for detailed analysis.

Legal Risk

DB has a full-time legal team which deals with both routine and more complex legal issues. Situations of a particular complexity and sensitivity are referred to external firms of lawyers, either in the UAE or overseas, as appropriate. DB also seeks to mitigate legal risk through the use of properly reviewed standard documentation and appropriate legal advice in relation to its non-standard documentation.

Legal Proceedings

DB is not currently, and has not been in the last 12 months, involved in any governmental, legal or arbitration proceedings and, so far as it is aware, no such proceedings are pending or threatened which may have, or have had, a significant effect on its financial position or profitability.

Internal Audit

The BAC is responsible for establishing and reviewing DB's internal audit function, conducting the internal audit cycles and for ensuring the independence of the Bank's internal audit functionaries. The Bank's Internal Audit department reports independently to the BAC. Internal Audit validates the ORSA framework, prepared by the RMG in consultation with the functional units in the Bank.

Capital Adequacy

DB calculates its capital adequacy ratio in accordance with the capital adequacy guidelines issued by the Central Bank, which are based on Basel I. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposure. In accordance with these guidelines, DB must maintain a minimum capital adequacy ratio of 10 per cent.

DB's capital adequacy ratio was 17.5 per cent. as at 31 December 2005, 16.6 per cent. (Basel I) as at 31 December 2006, 23.3 per cent. (Basel I) and 20.2 per cent. (Basel II) as at 31 December 2007 and 14.8 per cent. (Basel I) and 14.3 per cent. (Basel II) as at 30 June 2008.

The Central Bank had required that the Basel II Standardised Approach for Credit, Market and Operational Risk be implemented by 31 December 2007. All banks are expected to be "Internal Rating Based Approach" compliant for credit risk by 1 January 2011. To date, DB has successfully completed the initial framework for Basel II implementation.

Information Technology (IT)

DB recognises the importance of IT in assisting it to reach its objectives of growth, expansion and competitive market positioning. There is strong alignment between the Bank's business plans and its IT plans.

Substantial investment was made in 2007 to strengthen the Bank's overall IT infrastructure with a view to assuring availability, reliability and integrity of business services to customers, as well as enhance internal efficiencies. New systems, such as middleware, have been implemented to launch electronic delivery channels (such as telephone, SMS and internet banking) to accommodate and cater for customers who want to take advantage of the Bank's high level of services. In addition, DB has upgraded its core banking system, implemented a new ATM switch and introduced debit and covered card services. DB implemented an off-site disaster recovery facility which became fully operational in December 2007. DB also received ISO 9001 certification in 2007. In recognition of the Bank's IT infrastructure transitioning through the Islamic bank conversion process, DB's IT department received the "IT Department of the Year" award in the ACN Arab Technology Awards in September 2007.

Information Security Unit (ISU)

DB's ISU is set up within its RMG to strengthen the Bank's corporate security standards as well as reliability of service and to implement BS 7799 with respect to IT.

The ISU has the following responsibilities:

- Information Security Governance: to establish and maintain a framework to ensure information security strategies are aligned with the Bank's business objectives and are consistent with applicable laws and regulations;

- **Information Risk Management:** to identify and manage possible information security risks by developing and executing risk management processes (including mitigation and follow-up processes);
- **Information Security Management:** to design, develop and manage information security programmes to implement the information security governance framework (including base information security standards, security awareness programmes and related policies). Information Security Management also oversees security operations generally by ensuring the safety of information systems throughout the Bank (including core banking, ATMs and internet banking) and compliance with applicable information security policies and guidelines; and
- **Attack/Incidence Response:** to develop response and recovery procedures in the event of disruptive and/or destructive information security events.

Industry Regulation and Supervision

The principal source of banking regulation in the UAE is the Central Bank. The Central Bank provides prudential supervision of each bank's capital adequacy, liquidity and AML controls and its general banking activities. Monitoring by the Central Bank is undertaken by way of regular inspections of banks and their records and the requirement for regular submission of data including, but not limited to, deposited funds, loans and mortgage business, liquidity status and AML measures.

The Bank submits monthly, quarterly and annual reports to the Banking Supervision and Examination Department of the Central Bank. The Bank's Memorandum and Articles of Association, the audited financial statements, the distribution of dividends and other documents are all required to be approved by the Central Bank.

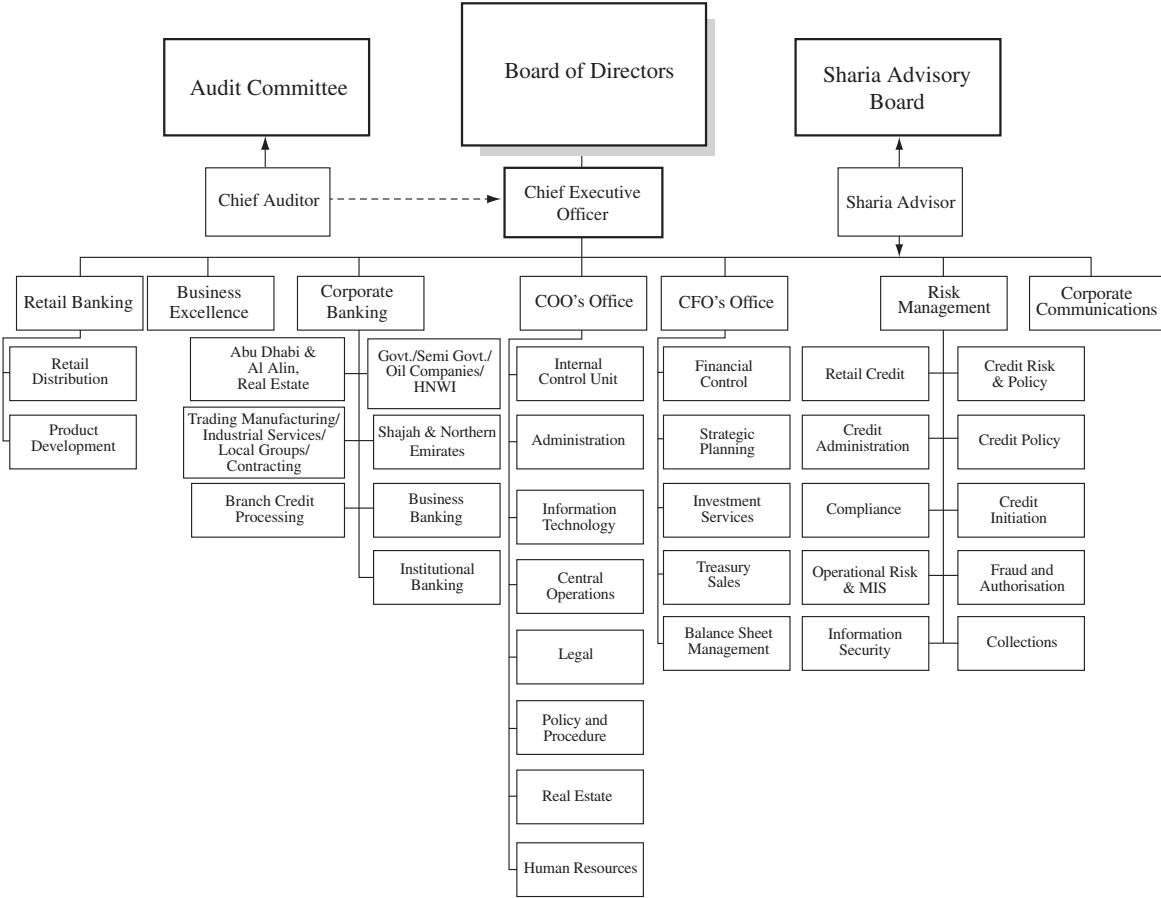
As a UAE company, the Bank is also subject to supervision and regulation at a corporate level by both the UAE Ministry of Economy and Planning and by the local regulatory authorities within each of the emirates of the UAE in relation to branches located in those emirates.

Tax

DB is not subject to tax in Dubai or the UAE, whether corporate or otherwise.

Management

The organisational chart of DB is as follows:



During 2006, DB underwent a fundamental management change with the appointment of a new CEO and Board, each with substantial Islamic finance backgrounds, as part of the transition to an Islamic bank. This entailed a review of the then management structure and reallocation of responsibilities. A number of positions have been created since then including the Head of Corporate and Institutional Banking, Chief Business Excellence Officer, the COO and the Bank’s *Sharia* Adviser.

As part of this process, six senior managers resigned during 2006. During 2007, there was only one resignation within the executive management team, namely that of the Head of Treasury and Investment Services. The Bank is currently recruiting a replacement for this position, during which time the CFO is temporarily acting as the head of this department.

During 2008, the CRO, Human Resources (or **HR**) manager and the Chief Retail Banking Officer moved to other positions. The CRO and HR manager’s positions have been filled, and recruitment for the position of Chief Retail Banking Officer is currently underway and, until this is formalised, the Chief Business Excellence Officer is temporarily acting as the head of the function. In addition, as part of the reorganisation of DBG, Mr. Abdulaziz Al Muhairi resigned his position as Chief Executive Officer of the Bank and of DBG (whilst retaining his board membership) and, on 6 May 2008, Mr. Salaam Al Shaksy was appointed as the new Chief Executive Officer of the Bank and of DBG. DB does not envisage any significant changes in the senior management team of the Bank for the next 12 months.

Rating

DB’s long term debt is rated “A”, its short term debt is rated “F1” and it has been assigned a “stable” outlook by Fitch Ratings Ltd. In addition, DB’s long term debt is rated “A3”, its short term debt is rated “Prime -2” and it has been assigned a “positive” outlook by Moody’s Investors Service Limited.

The Board

The members of the Board (**Board Members**) are elected by the Bank's shareholders at a general meeting. DB requires the majority of its Board Members to be UAE nationals. Each Board Member is appointed for a three-year term, at the end of which the Board Member is subject to re-election. The Board has the necessary power to manage DB and act on its behalf.

The following table sets out the names of the current members of DB's Board of Directors:

| Name | Age | Position | Principal Activities |
|-------------------------------|------------|-----------------|--|
| Fadel Ali | 43 | Chairman | CFO & COO of Dubai Holding |
| Soud Ba'alawy | 45 | Vice Chairman | Executive Chairman Dubai Group |
| Saeed Mohammed Ahmad Al-Tayer | 48 | Board Member | Managing Director and CEO of Dubai Electricity and Water Authority |
| Abdulaziz AlMuhairi | 43 | Board Member | Independent Consultant – has external business interests |
| Hamed Kazim | 49 | Board Member | Independent Consultant – has external business interests |
| Mohamed Al-Jallaf | 43 | Board Member | Independent Consultant – has external business interests |
| Low Ping | 42 | Board Member | Executive Director – Finance & Risk of Emaar Properties |

The address of each Board Member is: Sheikh Zayed Road (Dubai Trade Centre Complex), P.O. Box 65555, Dubai, UAE. There are no potential conflicts of interest between the private interests or other duties of the directors listed above and their duties to DB. Each Board Member of the Board is an independent non-executive director of DB.

Detailed below is brief biographical information on the Board Members.

Fadel Al Ali (Chairman)

Fadel Al Ali holds a B.Sc. Honours in Industrial and Systems Engineering from the University of Southern California, Los Angeles and also holds a Certificate of Finance from the American University of Sharjah. Mr. Al Ali joined Dubai Holding in September 2004, and was initially appointed CFO. He was promoted to the position of COO in December 2005. Mr. Al Ali is currently Executive Chairman at Dubai Holding, where he is responsible for a number of key group functions, including legal, marketing, strategy, audit, corporate governance, treasury and finance.

Soud Ba'alawy (Vice Chairman & Board Member)

Soud Ba'alawy is the Executive Chairman of Dubai Group. A Board Member and Vice Chairman of DB, Mr. Ba'alawy is also a board member of Noor Islamic Bank, Emirates Integrated Telecommunications Company (EITC), Dubai Financial Market (DFM) and Chairman of Manzil, a non-profit centre for people with special needs.

Saeed Mohammed Ahmad Al Tayer (Board Member)

Saeed Mohammed Ahmad Al Tayer graduated in 1984. He has more than 23 years experience in Dubai in the fields of telecommunications, energy and water utility services. He was appointed General Manager of Dubai Electricity Co. in 1991 and became the General Manager of the Dubai Electricity and Water Authority in 1992, when it was amalgamated to form Dubai Electricity Co. and the Dubai Water Department.

Abdulaziz Al Muhairi (Board Member)

Abdulaziz Al Muhairi holds a Bachelor of Science from the American College of Switzerland. He joined the National Bank of Abu Dhabi in 1990 and held several positions there, leading up to his appointment as the Deputy Head of the Domestic Banking Division in 1998. Mr. Al Muhairi later joined the Abu Dhabi Islamic Bank as the Regional Manager for Dubai and the Northern Emirates, and ultimately went on to become Chief Executive Officer. Mr. Al Muhairi became a Board Member of DB in March 2006, and was the CEO from May 2006 to May 2008.

Hamed Kazim (Board Member)

Hamed Kazim is a graduate of the University of California, San Diego, with a B.A. in Economics and minor in Electronic Engineering. Mr. Kazim has served on a number of boards, bringing with him experience across a number of different industries, including banking, telecommunications and e-commerce. Specialising in valuation and restructuring, Mr. Kazim has worked with groups such as Ernst & Young and The Corporate Office (later called Dubai World), before setting up his own consultancy practice, focusing on business advice directed to Chief Executive Officers and board of directors.

Mohammed Al Jallaf (Board Member)

Mohammed Abudul Rahman Al Jallaf holds a B.Sc. in Computer Programming & Economics. He worked in the Emirates Bank for 15 years. Additionally, he has been a director in Al Jallaf Investment LLC. He is also a Director in Insulite (LLC), a subsidiary of Dubai Investment.

Low Ping (Board Member)

Low Ping is a graduate of the National University of Singapore, with a Bachelor of Accountancy, and is a member of the Certified Public Accountants in Singapore. Low Ping is currently responsible for Emaar Group's Enterprise Risk Management and all financial matters pertaining to Emaar Properties such as budgeting, financial and management reporting, equity structuring, taxation and treasury functions for Emaar Properties. In addition, she is the Group Managing Director of Hamptons International UK and Middle East. Prior to joining Emaar Properties, Low Ping was an Audit Partner with KPMG Singapore.

Sharia Advisory Board

The Sharia Advisory Board comprises of Islamic scholars with high reputations and with extensive experience in law, economics and banking systems. The Sharia Advisory Board is appointed by the shareholders of the Bank in its annual general meeting upon the recommendation of the Bank's Board. Its responsibilities include directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with Islamic *Sharia* rules and principles including, but not limited to, supervising the development and creation of innovative *Sharia*-compliant products, issuing fatwas on any matter proposed to it by business units of DB, ensuring (via *Sharia* auditors) that transactions are carried out in compliance with Islamic principles and analysing contracts and agreements concerning DB's transactions.

The Sharia Advisory Board is obligated to submit an annual report to the Board summarising all the issues which have been referred to it, as well as its opinion on DB's transactional procedures.

The following table sets out the names of the current members of the Sharia Advisory Board:

| Name | Position |
|-------------------------------|-----------------|
| Sheikh Muhammad Taqi Usmani | Chairman |
| Sheikh Dr. Mohamed Ali Elgari | Member |
| Sheikh Nizam Yaquby | Member |
| Dr. Mohammed Daud Bakar | Member |

Detailed below is brief biographical information on the members of the Sharia Advisory Board.

Sheikh Muhammad Taqi Usmani

Sheikh Muhammad Taqi Usmani has been Chairman of the Sharia Advisory Board since March 2006. Justice Taqi Usmani has had a distinguished career in Islamic law and finance and is a prominent member of a number of Islamic institutions. He received his training from Darul Uloom, Karachi, Pakistan, where he serves as Vice President.

Sheikh Dr. Mohamed Ali Elgari

Sheikh Dr. Mohamed Ali Elgari has been a member of the Sharia Advisory Board since March 2006. As an established Islamic economist, Dr. Elgari teaches, writes and works with several institutions in the field. He received his PhD in Economics from the University of California, United States of America, and is currently at the King Abdulaziz University (Jeddah), Saudi Arabia.

Sheikh Nizam Yaquby

Sheikh Nizam Yaquby has been a member of the Sharia Advisory Board since March 2006. Sheikh Nizam sits on the Islamic supervisory boards of several Islamic financial institutions and is an active scholar in Islamic finance. He received a B.A. degree in Economics and Comparative Religion from McGill University, Canada. Sheikh Nizam is currently completing his PhD in Islamic law at the University of Wales, United Kingdom. He works as an independent *Sharia* consultant based in his home country, Bahrain.

Dr. Mohammed Daud Bakar

Dr. Mohammed Daud Bakar has been a member of the Sharia Advisory Board since March 2006. He received his first degree in *Sharia* from the University of Kuwait in 1998 and obtained his PhD from the University of St. Andrews, United Kingdom, in 1993. In 2002, he went on to complete his external Bachelor of Jurisprudence at the University of Malaya.

The address of each member of the Sharia Advisory Board is: Sheikh Zayed Road (Dubai Trade Centre Complex), P.O. Box 65555, Dubai, UAE. There are no potential conflicts of interest between the private interests or other duties of the Sharia Advisory Board listed above and its duties to DB.

Key Senior Management

The following table sets out the names of the current senior management of DB:

| Name | Age | Position |
|------------------|------------|---|
| Salaam Al Shaksy | 48 | CEO |
| Ahmed Elshall | 58 | CFO |
| Ali Al Hashimi | 38 | COO |
| Pravin Kandhari | 40 | CRO |
| Mohamed Amiri | 41 | Head of Retail Banking |
| Faizal Eledath | 41 | Head of Information Technology |
| Asim Al Ali | 43 | Head of Human Resources |
| P.P. Abdulla | 61 | Executive Vice President– Corporate Banking Group |
| Amin Faruqi | 56 | Chief Auditor |
| Nellisery Joseph | 56 | Chief Business Excellence Officer |
| Mohammed Juma | 34 | Head of Corporate Communication |

The address of each member of the senior management of DB is: Sheikh Zayed Road (Dubai Trade Centre Complex), P.O. Box 65555, Dubai, UAE. There are no potential conflicts of interest between the private interests or other duties of the senior management listed above and their duties to DB.

Detailed below is brief biographical information on the senior management of DB.

Senior management profiles

Salaam Al Shaksy

Salaam Al Shaksy was appointed as Chief Executive Officer of DBG and DB in May 2008. He has over 23 years' experience in banking, investments and information technology. Prior to joining DB, he was the Chief Executive Officer of Dubai Islamic Investment Group, the global *Sharia*-compliant investment company of Dubai Group. He has also worked as the Chief Executive Officer of Bank Dhofar and played a key role in its expansion after its merger with Majan International Bank.

Ahmed Elshall

Ahmed Elshall joined DB in July 2007 as CFO and has nearly 28 years' banking experience. Prior to joining DB, he held a number of senior positions including Senior Vice President & Group Head – Union National Bank and Senior Vice President – Strategic Planning and Financial Control, Abu Dhabi Islamic Bank.

Ali Al Hashimi

Ali Al Hashimi joined DB in August 2007. He is COO and has 10 years' banking experience. Prior to joining DB, he held the positions of Head of Islamic Financing and Equity Rights Issues at Abu Dhabi Islamic Bank and Central Operations Officer at First Gulf Bank. Before joining Abu Dhabi Islamic Bank, he was acting General Manager of Abu Dhabi Islamic Financial Services.

Pravin Kandhari

Pravin Kandhari joined DB in July 2008. He is the CRO and has over 14 years' experience with Citibank. Prior to joining DB, he held the position of Director – Business Management at Citibank, London and has also worked as Internal Auditor at Sanwa Business Credit.

Mohamed Amiri

Mohamed Amiri is due to join DB in August 2008. He will take up the position of Head of Retail Banking and has over 17 years' experience in both international and Islamic banking. Prior to joining DB, he held the position of Executive Vice President – Chief of Retail and Business Banking at Dubai Islamic Bank and has also worked as Branch Manager, Deira at HSBC, Dubai.

Faizal Eledath

Faizal Eledath joined DB in October 2006 as Head of Information Technology with over 14 years' banking experience mostly at Mashreqbank and Mindscape (UAE), where he held a number of senior positions including that of Vice President – IT Solutions.

Asim Al Ali

Asim Al Ali joined DB in January 2008. He is Head of Human Resources at DB and has over 15 years' HR experience. Starting his career in the Manpower Planning & Development Department of ADGAS, Abu Dhabi, where he spent 5 years, Asim continued his career in the areas of Recruitment, Training & Development & Nationalization at Etisalat. Prior to joining, DB he was the Assistant Director – Marketing & Sales at the Etisalat Academy.

P.P. Abdulla

P.P. Abdulla joined DB in February 2007. He is Executive Vice President- Corporate & Institutional Banking Group at DB and has 28 years' banking experience. He has held a number of senior positions including Senior Vice President – Corporate & Commercial Finance with Abu Dhabi Islamic Bank and before that, Vice President/Head of Corporate Banking at Citibank (Dubai & Abu Dhabi).

Amin Faruqi

Amin Faruqi joined DB in February 2007. He is Chief Auditor at DB and has 29 years' banking experience. Previous semi-banking positions include Head of Audit at Abu Dhabi Commercial Bank and Assistant Vice President of Audit at Mashreq Bank, Dubai.

Nellissery Joseph

Nellissery Joseph joined DB in August 2006. He is Chief Business Excellence Officer at DB and has 26 years' banking experience. His banking experience includes retail banking managerial positions at National Bank of Abu Dhabi. Previously, he worked at Abu Dhabi Islamic Bank, where he held the position of Vice President – Retail Banking.

Mohammed Juma

Mohammed Juma joined DB in July 2006. He is Head of Corporate Communication at DB and has 2 years' banking experience. Prior to joining DB, he held a senior position at Abu Dhabi Islamic Bank and has held similar posts with ASMAR.

Management Committees

In addition to the ALRMC and ICC, DB has the following executive level committees established:

Management Committee (ManCom)

ManCom is the executive-level committee responsible for overall monitoring and review of the Bank's strategic positioning and its subsequent implementation. ManCom's members comprise the CEO and DB's executive management team. All executive committees established (ALRMC, Automation, ICC and Human Resources and Compensation) are a subset of ManCom. ManCom meetings are held at least on a monthly basis.

Automation Committee (ATC)

The ATC is the principal committee charged with oversight of the Bank's IT strategy and implementation processes. ATC's members comprise the CEO, CFO, CRO and COO, as well as representatives from each executive management team. ATC meetings are held quarterly.

Human Resources and Compensation Committee (HRCC)

The HRCC is mandated to establish human resources strategies aimed at the employment, motivation and retention of high calibre employees and ongoing business continuity through succession planning.

Employees

As at 30 June 2008, DB had 650 employees, compared with 557 as at 31 December 2007, 384 as at 31 December 2006 and 446 as at 31 December 2005. DB had a staff turnover of approximately 10.9 per cent. for the period between 1 January 2008 and 30 June 2008 compared to staff turnover of 28.72 per cent. in 2007 and 35 per cent. in 2006.

Consistent with other banks in the UAE, DB's employees do not participate in trade union representation as no such bodies exist in the UAE. As a result of the increasing demand for qualified bank employees within the UAE banking sector, and partly also as a result of the increased staff turnover following conversion to an Islamic bank, DB is actively developing strategies aimed at attracting and retaining qualified staff members. The Bank has established an Employee Share Ownership Plan (the **Plan**) following approval from its shareholder at an Extraordinary General Meeting held on 22 January 2007. The main objective of the Plan is employee retention. The Plan acquired 5 million shares having a face value of AED 50 million for AED 25 million from the Bank's parent entity. The shares are acquired by the Plan through a financing facility provided by the Bank. Under the Plan these shares will be granted to the Bank's employees vesting over a period of three years.

At 1 January 2008 420,057 shares were granted to the employees, out of which 126,017 shares vested during the period to 30 June 2008 and 5,493 shares have been exercised in that period.

Training

DB is committed to promoting an environment of training, learning and continuing professional development for its employees. At DB, training and development is a collective responsibility between the Department/Division Head/Branch Managers/Supervisor/Line Manager, employee and HR Department.

In the year to 31 December 2007, over 13,000 training and development hours were undertaken by DB staff. For the period from 1 January 2008 to 30 June 2008, over 10,000 training and development hours were undertaken by DB staff.

Emiritisation

Emiritisation at the Bank is based on policies of recruitment, retention and reduction. The emiritisation programme at DB is managed by HR and includes induction, training, on-going support and career development opportunities in a structured and systematic way. Each UAE national has a personalised training programme developed for them during their employment with DB.

Opportunities for UAE nationals to meet with representatives at, and ultimately to join, DB are constantly available, and initiatives have included open days, advertising in local major newspapers, website advertising and visits to universities throughout the UAE.

As at 30 June 2008, DB had an emiritisation level of 24.9 per cent. compared with 22.4 per cent. as at 31 December 2007, 16.3 per cent. as at 31 December 2006 and 13 per cent. as at 31 December 2005.

Selected Financial Information

The following tables set out in summary form the balance sheet and income statement information relating to the Bank. Such information is extracted from the unaudited interim condensed consolidated financial statements of the Bank as at, and for the 6 months ended, 30 June 2008 (the **Interim Financial Statements**) and from the audited consolidated financial statements of the Bank as at, and for the year ended, 31 December 2007 and the financial statements as at, and for the years ended, 31 December 2006 and 2005. Such financial statements, together with the auditor's reports of Ernst & Young and the accompanying notes, appear elsewhere in this Base Prospectus. The financial information presented below should be read in conjunction with such financial statements, reports and the notes thereto.

Income Statement Data

| | For the six months ended 30 June | For the year ended 31 December | | |
|---|--|--------------------------------|------------------|------------------|
| | 2008 | 2007 | 2006 | 2005 |
| | | <i>AED thousand</i> | | |
| Income from Islamic financing and investing assets .. | 327,686 | 533,063 | - | - |
| Interest income | - | - | 279,921 | 182,894 |
| Depositors' share of profits | (113,624) | (283,262) | - | - |
| Interest expense | - | - | (106,589) | (58,892) |
| Total | 214,062 | 249,801 | 173,332 | 124,002 |
| Net fees, commission and other income | 70,123 | 65,361 | 74,045 | 64,235 |
| Gain on sale of available-for-sale investments | 105,392 | 122,775 | 30,550 | 81,679 |
| Gain on sale of the credit card business | - | - | 53,717 | - |
| Total | 175,515 | 188,136 | 158,312 | 145,914 |
| Expenses | | | | |
| General and administrative expenses | (161,938) | (219,141) | (198,968) | (152,860) |
| Provisions for impairment | 4,381 | (8,018) | (27,777) | (14,250) |
| Total | (157,557) | (227,159) | (226,745) | (167,110) |
| Profit for the Year | 232,020 | 210,778 | 104,899 | 102,806 |

Balance Sheet Data

| | As at 30 June | As at 31 December | | |
|--|-------------------|---------------------|------------------|------------------|
| | 2008 | 2007 | 2006 | 2005 |
| | | <i>AED thousand</i> | | |
| Assets | | | | |
| Cash and balances with Central Bank | 1,596,234 | 1,622,803 | 413,244 | 1,225,406 |
| Balances and deposits with banks | 986,527 | 471,826 | 2,956,122 | 1,511,533 |
| Islamic financing and investing assets | 11,967,581 | 7,524,646 | - | - |
| Loans and advances to customers | - | - | 1,505,627 | 1,621,274 |
| Investment securities | 698,052 | 1,022,646 | 499,608 | 341,619 |
| Premises and equipment | 82,938 | 58,683 | 34,890 | 35,648 |
| Other assets | 427,769 | 216,718 | 149,593 | 45,744 |
| Total Assets | 15,759,101 | 10,917,322 | 5,559,084 | 4,781,224 |

Liabilities and Equity Liabilities

| | As at | As at 31 December | | |
|---|-------------------|---------------------|------------------|------------------|
| | 30 June | 2007 | 2006 | 2005 |
| | 2008 | | | |
| | | <i>AED thousand</i> | | |
| Customers' deposits | 12,860,017 | 7,734,493 | 4,478,416 | 3,716,830 |
| Due to banks and other financial institutions | 440,107 | 884,010 | 252,150 | 202,123 |
| Other liabilities | 364,292 | 251,554 | 188,935 | 309,737 |
| Total Liabilities | 13,664,416 | 8,870,057 | 4,919,501 | 4,228,690 |
| Equity | | | | |
| Share capital | 1,500,000 | 1,500,000 | 500,000 | 500,000 |
| Other Reserves | (24,425) | - | - | - |
| Special reserves | 42,256 | 42,256 | 21,178 | 10,688 |
| Statutory reserves | 46,241 | 46,241 | 15,235 | 3,039 |
| Cumulative changes in fair value | 39,991 | 200,796 | 3,892 | 21,742 |
| Retained earnings | 490,622 | 257,972 | 99,278 | 17,065 |
| Total Equity | 2,094,685 | 2,047,265 | 639,583 | 552,534 |
| Total Liabilities and Equity | 15,759,101 | 10,917,322 | 5,559,084 | 4,781,224 |

Customers' and Bank Deposits

The Bank's main source of funding has been customers' and other banks' deposits, and shareholders' equity. The following table sets out certain details of such funding for the Bank as at 30 June 2008 and as at 31 December 2007, 2006 and 2005.

| | As at | As at 31 December | | |
|------------------------------|-------------|------------------------------------|-----------|-----------|
| | 30 June | 2007 | 2006 | 2005 |
| | 2008 | | | |
| | | <i>AED thousand (USD thousand)</i> | | |
| Main sources of funds | | | | |
| Customers' deposits: | | | | |
| Current accounts | 4,984,024 | 3,469,041 | 1,091,966 | 1,324,987 |
| | (1,357,120) | (944,599) | (297,336) | (360,786) |
| Saving accounts | 451,940 | 267,367 | 196,048 | 206,809 |
| | (123,061) | (72,802) | (53,383) | (56,313) |
| Investment deposits | 7,424,053 | 3,998,085 | 3,190,402 | 2,185,034 |
| | (2,021,526) | (1,088,655) | (868,728) | (594,972) |
| Due to Banks | 440,106 | 884,010 | 252,150 | 202,123 |
| | (119,838) | (240,711) | (68,659) | (55,037) |
| Shareholders' Equity | 2,094,685 | 2,047,265 | 639,583 | 552,534 |
| | (570,370) | (557,458) | (174,155) | (150,452) |

Assets and Investments

The following summarises the position in relation to some of the Bank's principal assets and investments as at 30 June 2008 and as at 31 December 2007, 2006 and 2005.

| | As at 30 June | As at 31 December | | |
|---|--------------------------|--------------------------|-------------|-------------|
| | 2008 | 2007 | 2006 | 2005 |
| <i>AED thousand (USD thousand)</i> | | | | |
| Assets and Investments | | | | |
| Cash and balances with the Central Bank | 1,596,234 | 1,622,803 | 413,244 | 1,225,406 |
| | (434,645) | (441,880) | (112,524) | (333,671) |
| Due from banks | 986,527 | 471,826 | 2,956,122 | 1,511,533 |
| | (268,625) | (128,475) | (804,935) | (411,581) |
| Islamic financing and investing assets | 11,967,581 | 7,524,646 | – | – |
| | (3,258,701) | (2,048,917) | – | – |
| Loans and advances to customers | – | – | 1,505,627 | 1,621,274 |
| | – | – | (409,973) | (441,463) |
| Investment securities | 698,052 | 1,022,646 | 499,608 | 341,619 |
| | (190,075) | (278,460) | (136,040) | (93,021) |
| Premises and equipment | 82,938 | 58,683 | 34,890 | 35,648 |
| | (22,584) | (15,979) | (9,500) | (9,707) |
| Other assets | 427,769 | 216,718 | 149,593 | 45,744 |
| | (116,479) | (59,011) | (40,733) | (12,456) |

Loans and Advances

The following table summarises the movement of loans and advances and related provision for impairment as at 30 June 2008 and as at 31 December 2007, 2006 and 2005.

| | As at 30 June | As at 31 December | | |
|--|--------------------------|--------------------------|-------------|-------------|
| | 2008 | 2007 | 2006 | 2005 |
| <i>AED thousand (USD thousand)</i> | | | | |
| Loans and Advances | | | | |
| Loans and advances to customers | 12,006,978 | 7,568,424 | 1,541,387 | 1,643,740 |
| | (3,269,429) | (2,060,837) | (419,711) | (447,581) |
| Provisions for impaired loans and advances | (39,397) | (43,778) | (35,760) | (22,466) |
| | (10,728) | (11,920) | (9,737) | (6,117) |
| Loans and advances to customers (net position) | 11,967,581 | 7,524,646 | (1,505,627) | (1,621,274) |
| | (3,258,701) | (2,048,917) | (409,973) | (441,463) |

Portfolio Concentration

The following table shows the portfolio concentration as at 30 June 2008 and as at 31 December 2007, 2006 and 2005.

| | As at* | As at 31 December | | |
|---|--------------------|--------------------|------------------|------------------|
| | 30 June | 2007 | 2006 | 2005 |
| <i>AED thousand (USD thousand)</i> | | | | |
| Portfolio Concentration | | | | |
| Gross Islamic Financing and Investing Assets | | | | |
| – by industry sector: | | | | |
| Banks and financial institutions | – | 21,264 | 34,901 | 62,434 |
| | – | (5,790) | (9,503) | (17,000) |
| Construction and real estate | 2,237,928 | 1,029,171 | 119,172 | 96,982 |
| | (609,375) | (280,237) | (32,450) | (26,408) |
| Trade and manufacturing | 1,175,867 | 1,236,850 | 486,307 | 528,410 |
| | (320,182) | (336,787) | (132,419) | (143,883) |
| Government | 1,505,700 | 1,288,548 | 8,500 | 35,576 |
| | (409,993) | (350,864) | (2,314) | (9,687) |
| Personal | 3,030,195 | 1,917,363 | 645,467 | 852,494 |
| | (825,104) | (522,087) | (175,757) | (232,129) |
| Others** | 4,057,288 | 2,075,228 | 247,040 | 67,844 |
| | (1,104,775) | (565,072) | (67,268) | (18,474) |
| Total | 12,006,978 | 7,568,424 | 1,541,387 | 1,643,740 |
| | (3,269,429) | (2,060,837) | (419,711) | (447,581) |

Note:

* The numbers specified as at 30 June 2008 are based on management accounts and are not contained in the Interim Financial Statements.

** These sectors include, *inter alia*, agriculture and allied activities, mining and quarrying, transport, storage and communications, and services.

Contingent Liabilities and Commitments

The following summarises the position in relation to the Bank's contingent liabilities and commitments as at 30 June 2008 and as at 31 December 2007, 2006 and 2005.

| | As at | As at 31 December | | |
|---|-----------|-------------------|-----------|----------|
| | 30 June | 2007 | 2006 | 2005 |
| <i>AED thousand (USD thousand)</i> | | | | |
| Contingent Liabilities and Commitments | | | | |
| Letters of credit | 432,386 | 396,435 | 219,747 | 205,382 |
| | (117,736) | (107,947) | (59,836) | (55,924) |
| Guarantees | 1,411,338 | 852,361 | 571,961 | 237,248 |
| | (384,299) | (232,093) | (155,742) | (64,601) |
| Acceptances | 449,085 | 51,399 | 68,127 | 55,667 |
| | (122,283) | (13,996) | (18,551) | (15,158) |

The Bank also had non-credit related capital commitments in respect of premises and equipment purchases of AED 44.1 million as at 30 June 2008.

Related Party Transactions

The Bank enters into transactions with its shareholders, directors, senior officers and their related concerns in the ordinary course of business at commercial benefit and commission rates on a commercial arms-length basis. All such dealings with related parties are performing advances and are free of any provision for possible losses. Related party transactions with the Government of the UAE are specifically excluded from related party disclosure in accordance with International Financial Reporting Standards and accordingly are not reported.

In particular, DB has a number of significant commercial arrangements with members of the Dubai Holding and Emaar Properties groups that are categorised as related party transactions in its financial statements. As at 30 June 2008, Islamic financing and investing assets and other commitments placed with such related parties totalled AED 3,634.7 million (USD 989.7 million) (compared to AED 2,157.9 million (USD 587.6 million) as at 31 December 2007, AED 352.7 million (USD 96.1 million) as at 31 December 2006 and AED 20.5 million (USD 5.6 million) as at 31 December 2005), representing 30.4 per cent., 28.7 per cent., 23.4 per cent. and 1.3 per cent. respectively of the total financing and facilities at such dates.

In contrast, as at 30 June 2008, deposits from customers and due from banks from related parties totalled AED 2,503.5 million (USD 681.6 million) (compared to AED 488.1 million (USD 132.9 million) as at 31 December 2007, AED 292.1 million (USD 79.5 million) as at 31 December 2006 and AED 960.5 million (USD 261.5 million) as at 31 December 2005), representing 19.5 per cent., 6.3 per cent., 6.5 per cent. and 25.8 per cent. respectively of total customer deposits at such dates. On 13 June 2007, DB granted a facility amounting to AED 735 million (USD 200.1 million) (representing approximately 9.8 per cent. of DB's total islamic finance portfolio as at 31 December 2007) to Dubai Group LLC for which specific authorisation was sought, and obtained, from the Central Bank. As at 30 June 2008, this facility stood at AED 2.21 billion, representing 18.5 per cent. of the Bank's gross finance portfolio.

As at 30 June 2008, funded financing to Dubai government entities and financing to the Bank's related group entities represented approximately 12.6 per cent. and 28.9 per cent., respectively, of gross corporate facilities and deposits from Dubai government entities, and deposits from the Bank's related group companies represented approximately 31.6 per cent. and 19.4 per cent., respectively, of the Bank's corporate deposit base.

OVERVIEW OF THE UNITED ARAB EMIRATES

The UAE is a federation of seven emirates. Formerly known as the Trucial States, the emirates were a British protectorate until they achieved independence in December 1971 and merged to form the federation of United Arab Emirates. Each emirate has a local government headed by the Ruler of the emirate. There is a federal government which is headed by the President. Each emirate enjoys significant autonomy and has its own budget. The UAE's federal budget is funded by the two richest emirates – Abu Dhabi and Dubai.

Abu Dhabi is the richest and largest of the seven emirates and the city of Abu Dhabi is also the capital of the federation. Considering this financial wealth, it may, in cases of need, bankroll the rest of the federation. During his long presidency, the late HH Sheikh Zayed Bin Sultan Al-Nahyan oversaw massive investment in the infrastructure of the UAE which has transformed the country. Much of Abu Dhabi's wealth is now held in overseas assets by the Abu Dhabi Investment Authority (**ADIA**), the investment arm of the Abu Dhabi Government. In 2007, the Abu Dhabi Investment Council (**ADIC**), a sister institution to ADIA, was established for the purpose of investing government funds domestically and internationally. The management of official investment funds will be shared between ADIA and ADIC.

The federation is governed by the Supreme Council of the Rulers which consists of the Rulers of the seven emirates. The Supreme Council elects from its own membership the President and the Vice President (for estimated renewable five year terms). HH Sheikh Zayed Bin Sultan Al-Nahyan, the late Ruler of Abu Dhabi, held the position of President from 1971 until his death in November 2004. Following his death, his son HH Sheikh Khalifa Bin Zayed Al-Nayhan took over as Ruler of Abu Dhabi and has been elected as President of the UAE.

The UAE has the second largest economy in the Arab world after Saudi Arabia. Though it has a more diversified economy than most of the other countries in the GCC, its wealth is largely based on oil and gas, which generates approximately one-third of the UAE's gross domestic product (**GDP**) and approximately one half of export earnings. The UAE has approximately 10 per cent. of proven global oil reserves.

The performance of the UAE economy during 2006 was strong. The GDP is estimated to have reached U.S.\$192.5 billion in 2007. Real GDP growth was estimated at 7.4 per cent. in 2007, with oil production remaining stagnant and non-oil sectors growing at double-digit growth rates (the non-oil sector growth has been running in excess of 10 per cent. per annum on average during the last five years). The expansion in the UAE's economy is supported by an outward-oriented development strategy, a favourable business climate and sustained high oil prices. In addition to record oil prices, the major contribution to the GDP growth has been from the construction, manufacturing, tourism and service sectors. Stock market indices went through a period of recovery in 2007 after decline in the previous year, with market capitalisation increasing to U.S.\$257 billion in December 2007. Domestic market indices continued to decline through most of 2006, but the overall economic impact of the market correction has been very limited. Domestic markets showed renewed strength in 2007 attributed to attractive valuations, low correlation with global equities, and positive prospects of the domestic economy.

Moody's Investors Service upgraded the foreign and local currency government bond ratings of the UAE to Aa2 on 9 July 2007. In an associated action, the country ceiling for foreign currency bank deposits was also raised to Aa2. The country ceilings for foreign and local currency bonds remain at Aa2. The short-term rating also remained unchanged at Prime-1 (P-1). The outlooks on all ratings are stable.

The UAE enjoys good relations with the Arab World.

Approximately 70 per cent. of the UAE's fiscal revenues are derived from oil, making government finances vulnerable to fluctuations in oil prices. The consolidated budget balance is estimated to have run surpluses since 2002, steadily rising with global oil prices. The consolidated budget surplus, as a proportion of GDP, was estimated at 25.1 per cent. of GDP in 2007, down from 28.8 per cent in 2006. The use of oil revenues to accumulate a large stock of overseas assets has been a long-running policy and, in 2007, capital outflows attributed to public institutions (for instance, ADIA) stood at U.S.\$48 billion, up from U.S.\$40 billion in 2006. With high oil prices and strong performance of non-oil exports, the external current account surplus increased to close to U.S.\$39 billion, or 20 per cent. of GDP. Capital account movements continued to mirror

the large build-up of official foreign assets by ADIA. Gross official reserves at the Central Bank increased in 2007 to U.S.\$80.0 billion.

THE UNITED ARAB EMIRATES BANKING SECTOR AND REGULATIONS

Summary

As a bank regulator, the UAE Central Bank (the **Central Bank**) monitors banks through its Banking Supervision Department. It conducts reviews of banks periodically based on the risk profile of each bank. It also reviews all the returns submitted by the banks to the Central Bank. The Central Bank does not act as a lender of last resort, a role which tends to fall on the individual emirs of each emirate.

Characteristics of the Banking System

Domestic Focus

The UAE banks are predominantly focused on the domestic market. Expansion of retail operations has required heavy investment in distribution channels, particularly ATM networks and telephone and internet banking services. As a consequence, information technology costs have been a prominent feature of many UAE banks' expenses.

Limited Foreign Ownership

In 1987, the Government placed a freeze on new foreign banks opening operations in the UAE. At the same time, existing foreign banks were limited to a maximum of eight branches. The 25 foreign banks in the country currently have a 25 per cent. share of the market. These restrictions will soon have to be reconsidered as part of the UAE's compliance with the World Trade Organisation provisions. Under UAE law, locally-incorporated banks must be majority-owned by UAE nationals.

Exposure to the Oil Sector

With much of the economy directly or indirectly dependent on the oil sector, the UAE banks are vulnerable during long periods of low prices. In particular, oil revenues tend to drive levels of liquidity and can materially affect profitability.

Developing Capital Markets

The absence of mature bond and equity markets in the UAE means that banks have been the primary source of long-term financing. However, the two stock markets, the Dubai Financial Market and the Abu Dhabi Securities Market (both of which were established in 2000), continue to develop and the number of listed companies continues to increase thus increasing the presence of both bond and equity markets in the UAE.

Government Involvement

There is a high degree of state involvement in the UAE banking sector. Most of the larger banks have some degree of government ownership.

Islamic Finance and Banking

Islamic (*Sharia*) law forbids the charging of interest on any financial transaction. A number of banks have developed in the Islamic world to serve customers who wish to observe this principle. These institutions offer a range of products, which broadly correspond to conventional banking transactions and are structured in such a way as to avoid the application of interest.

Legal Environment

There are three primary sources of law in the UAE: federal laws and decrees; local laws; and *Sharia* law. The secondary form of law is trade custom or practice. In the absence of federal legislation on areas specifically reserved to federal authority, the local government will apply its own rules, regulations and practices.

Supervision of Banks

The main piece of legislation covering the Issuer's system is Union Law No. 10 of 1980 (the **Union Law**) which established the Central Bank. The Central Bank's primary roles are to formulate and implement banking, credit, monetary and fiscal policy and to be responsible for ensuring price and currency stability with free convertibility to foreign denominations.

The Central Bank is also the "bank for banks" in the country; however, it is not the "lender of last resort". In the event of a bank getting into financial difficulties or facing a solvency crisis, it would be expected that long-term liquidity or equity support would be provided by the emirate in which the institution is based. However, in the event of a run on the currency or a major banking crisis it would ultimately be the Government of Abu Dhabi who would stand as de facto defender of the currency and the lender of last resort.

Income from overseas investments has been used to fund fiscal deficits, obviating the need for the Central Bank to issue government debt. However, the Central Bank does issue certificates of deposit to the banks, denominated in both U.S. Dollars and dirhams, in order to absorb excess liquidity rather than to meet a specific funding need. There is no secondary market in these securities, but they can be redeemed at face value at the Central Bank at any time, subject to interest penalties. The dirham is linked to the International Monetary Fund (IMF) Special Drawing Right. However, the U.S. Dollar is the intervention currency and in reality the AED is fixed against the U.S. Dollar.

The Central Bank is also responsible for regulating financial institutions. In relation to money laundering controls, it has established a Financial Intelligence Unit, issued a number of detailed regulatory instructions in pursuit of anti-money laundering policies and procedures and hosted teams from the Financial Action Task Force (FATF) and the IMF who reviewed, discussed and tested existing UAE laws and regulations. This led the FATF to decide in January 2002 that the UAE had put in place adequate anti-money laundering systems.

Structure of the Banking System

Banking institutions in the UAE fall into a number of categories, as defined by the Union Law. Domestic commercial banks, also known as "local" banks are required to be public shareholding companies with a minimum share capital of AED 40 million.

Licensed foreign banks need to demonstrate that at least AED 40 million has been allocated as capital funds for their operations in the UAE. The Union Law also licenses "financial institutions" (institutions whose principal functions are to extend credit, carry out financial transactions, invest in moveable property and other activities, but are not permitted to accept funds in the form of deposits) and financial and monetary intermediaries (money and stock brokers).

Recent trends in Banking

Profitability

The performance of the UAE economy is influenced by oil prices, which directly affect fiscal revenues and hence determine government expenditure. High oil prices, high liquidity and strong retail demand due to a booming non-oil economy in the last few years improved the profitability of the banking sector. The positive trend continued in 2006 and banking sector profits in 2007 are expected to have grown by more than 25 per cent. (for the majority of banks). Return on equity for most UAE banks compares well internationally, reflecting the high margins that can be earned in the region, particularly on retail lending.

Capital

The national banks are well capitalised by international standards. The Central Bank requires all UAE banks to have capital adequacy ratios of 10 per cent., but many banks have capital adequacy ratios that are higher. This reflects a tendency amongst banks to be more concerned about safeguarding shareholders' interests and capital preservation rather than maximising returns. Whilst the calculation of capital adequacy ratios in the UAE follows the BIS guidelines, GCC State sovereign debt is risk-weighted at zero per cent.

Position of Depositors

There are no formal deposit protection schemes in the UAE. Whilst no bank, so far, has been permitted to fail, during the 1980s and early 1990s a number were rescued by the authorities.

Prudential Regulations

The Central Bank has supervisory responsibility for all banking institutions in the UAE. Supervision is carried out through on-site inspections and review of periodic submissions from banks. The frequency of inspection depends on the perceived risk of the bank, but inspections are carried out in all banks at least once every 18 months. Prudential returns are made monthly, quarterly, semi-annually or annually, depending on the nature of the information they contain. An improved risk management framework is currently being implemented, which is designed to provide the Central Bank with more up-to-date information on credit, market and operational risks within the banking sector.

Competition

Competition in the UAE banking sector is rising, primarily as a result of the UAE Central Bank granting banking licences to newly formed or GCC state based banks permitting them to operate in the UAE. As at 31 December 2007, the top three banks operating in the UAE accounted for 40.5 per cent. of the market. Three banks of GCC state origin, National Bank of Kuwait, SAMBA and Doha Bank, have recently been awarded licences by the UAE Central Bank following an agreement to allow market access to banks of GCC state origin in line with continuing efforts in regional integration. The entry of these banks raised the number of foreign banks operating in the UAE to 28, and all banks to 50. The number of banks—national and foreign—providing Islamic banking services has also been rising. The UAE Central Bank last year gave a banking licence to a new institution called Noor Islamic Bank which started operations in 2007. In Abu Dhabi, a new emirate-owned Islamic bank, Al Hilal Bank, has been recently launched. This brings the number of Islamic banks operating in the UAE to seven. The UAE Central Bank has also approved formation of an Islamic bank based in Ajman. If launched, the total number of banks operating in the UAE would then rise to 51. Increasing numbers of banks operating in the UAE leads to an increase in competition, which in turn may lead to higher salaries and increased competition for talented employees.

Capital Adequacy

All banks are required to follow the principles of the Basel Accord in calculating their capital adequacy ratios. Since 1993, the Central Bank has imposed a 10 per cent. minimum total capital ratio. The Tier 1 ratio must be above six per cent. and the Tier 2 capital must not exceed 67 per cent. of Tier 1 capital. Tier 2 capital includes undisclosed reserves, revaluations of assets (limited to a maximum of 45 per cent. of the excess of market value over net book value and property revaluation reserves are excluded), hybrid capital instruments and subordinated term loans. Profits for the current period, goodwill, other intangibles, unrealised gains on investments and any shortfall in loan loss provisions are deducted from regulatory capital. GCC sovereign debt is risk-weighted at zero per cent.

Under the Union Law, banks are required to transfer 10 per cent. of profit each year into a statutory reserve until this reaches 50 per cent. of capital. Distributions cannot be made from this reserve, except in special legally defined circumstances. All dividends paid by UAE banks have to be authorised in advance by the Central Bank.

The Basel Committee on Banking Supervision published the text of a new framework on 26 June 2004 under the title “Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework.” This new framework (the **Basel II Framework**), which has been recently published in a consolidated version, and which places enhanced emphasis on market discipline and sensitivity to risk, is the basis for national rule-making and approval processes to continue and for banking organisations to complete their preparations for implementation of the Basel II Framework. The Basel Committee confirmed that it is currently intended that the various approaches under the Basel II Framework will be implemented in stages, some from the end of 2006 and the most advanced at the end of 2007.

Liquidity of the Banking System

The Central Bank closely monitors the level of liquidity in the banking system. It also requires that banks have adequate systems and controls to manage their liquidity positions, as well as contingency plans to cope with periods of liquidity stress.

Banks must also adhere to a maximum utilisation of funds to stable source of funds ratio of 100 per cent. set by the Central Bank. For this purpose, utilisations comprise loans and advances to customers and interbank assets maturing after three months. Sources of funds comprise 100 per cent. of refinance deposits and deposits maturing after six months and 85 per cent. of remaining deposits, 100 per cent. of interbank borrowings maturing after six months and free capital and reserves (net of fixed and illiquid assets).

Reserve Requirements

Reserve requirements are used periodically by the Central Bank as a means of prudential supervision and to control credit expansion.

Diversification of Risk

Banks are required to establish credit policies and procedures commensurate with their size and activities. They must also have a proper credit assessment and approval process and adequate controls in place to monitor credit concentrations to individual borrowers, economic sectors and foreign countries.

The Central Bank defines large exposures as any funded exposure to a single borrower or group of related borrowers exceeding a prescribed set of limits. The large exposure limits (defined as a percentage of the bank's capital base) are as follows:

- to a single borrower or group of borrowers—7.0 per cent.;
- to a shareholder of the bank holding more than 5 per cent. of the bank's capital—7.0 per cent.;
- overseas interbank exposures—30 per cent. (UAE interbank exposures are subject to a 25 per cent. limit if their maturity is over one year, otherwise they are exempt from the regulations);
- to the bank's parent company, subsidiaries or affiliates—20 per cent. (60 per cent. for all such exposures in aggregate); and
- to Board members—5.0 per cent. (25 per cent. in aggregate).

Exposures above these limits are subject to Central Bank approval. Exposures to the Government are exempt from the regulations.

The following lending limits also apply:

- no commercial bank can hold shares or bonds issued by commercial companies in excess of 25 per cent. of the bank's own funds; and
- no bank is permitted to grant loans or advances for the purpose of funding commercial or residential real estate exceeding 20 per cent. of its total deposits, unless it has prior authorisation from the Central Bank as an institution specialising in this type of business.

Financial Statements

The Central Bank has required all UAE banks to prepare their financial statements in accordance with IFRS since 1999. With effect from 1 January 2001, banks which at the time of preparing their financial statements in accordance with IFRS were required to adopt IAS39 (International Accounting Standards) treatment of financial instruments.

Provisions for Loan Losses

The Central Bank stipulates that non-performing credits should be classified as either sub-standard, doubtful or as a loss, depending on the likelihood of recovery, with provisions charged at a minimum of 25 per cent., 50 per cent. and 100 per cent., respectively. Any loans with either interest or principal in arrears by more than 180 days must be placed on a non-accrual basis and classified as non-performing. Following the implementation of the Basel II requirements, this limit will be reduced to 90 days. In practice, several banks operate more stringent policies and place loans on a non-accrual basis as soon as their recovery is in doubt. In line with best practices, the Issuer adopts a policy of classifying loans as non-performing when interest or principal is in arrears by more than 90 days.

Banks in the UAE generally do not write off non-performing loans until all legal avenues of recovery have been exhausted.

GENERAL DESCRIPTION OF THE INCOME GENERATING ASSETS

The Income Generating Assets which are the subject of the Trust constituted for each Series of Trust Certificates comprise a co-ownership interest in a portfolio of rights in Income Generating Assets.

The Income Generating Assets in respect of each Series of Trust Certificates will be originated or owned by the Bank and will represent obligations of lessees in the United Arab Emirates. The Bank will represent in the Master Purchase Agreement that the co-ownership interests in Income Generating Assets transferred to the Trustee in respect of each Series of Trust Certificates will be *Sharia*-compliant assets.

An outline summary of the co-ownership interests in Income Generating Assets, which will be purchased by the Issuer on the Issue Date of the relevant Series of Trust Certificates, will be set out in the applicable Final Terms. The composition of the Income Generating Assets may change over the life of each Series of Trust Certificates as (i) such assets may mature and the realisation proceeds thereof may be re-invested in acquiring a co-ownership interest in further Income Generating Assets, (ii) as the Managing Agent may utilise the Issuer's share of collections from the relevant Income Generating Assets to purchase a co-ownership interest in additional Income Generating Assets and (iii) as sums invested under the Investment Management Agreement may be applied to purchase a co-ownership interest in additional Income Generating Assets, all as described further below.

No investigation or enquiry will or has been made and no due diligence will or has been conducted by or on behalf of any Dealer, the Issuer, the Trustee or the Delegate in respect of any Income Generating Assets or their transferability under relevant local law. Reference should be made to the paragraphs under "*Risk Factors – Risk factors relating to the Income Generating Assets*".

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Principal Paying Agent (as defined in the Conditions).

The Master Trust Deed, as supplemented by each Supplemental Trust Deed

The Master Trust Deed was entered into on 24 September 2008 between Dubai Bank, the Issuer, the Trustee and the Delegate and is governed by English law. A Supplemental Trust Deed between the same parties shall be entered into on the Issue Date of each Series of Trust Certificates and shall also be governed by English law.

Upon issue of the Global Trust Certificate initially representing the Trust Certificates of any Series, the Master Trust Deed and the relevant Supplemental Trust Deed (together, the **Trust Deed** for the Series) shall together constitute the Trust declared by the Trustee in relation to such Series.

The Trust Assets in respect of each Series of Trust Certificates comprise (unless otherwise specified in the relevant Supplemental Trust Deed), *inter alia*, the Issuer's co-ownership interest in the Income Generating Assets, the Issuer's rights, title, interests, benefits and entitlements in, to and under the Investment, the Issuer's rights under the Transaction Documents and all amounts in the relevant Transaction Account, subject to the terms of the relevant Supplemental Trust Deed.

Each Trust Deed will specify that, on or after the relevant Maturity Date or, as the case may be, Dissolution Date of a Series of Trust Certificates, the rights of recourse in respect of Trust Certificates shall be limited to the amounts from time to time available and comprising the relevant Trust Assets of that Series, subject to the priority of payments set out in the Trust Deed, the relevant Trust Certificates and the Conditions. The Certificateholders have no claim or recourse against the Issuer or the Trustee in respect of any amount which is or remains unsatisfied and any unsatisfied amounts will be extinguished.

Pursuant to the Trust Deed, the Trustee will, in relation to each Series of Trust Certificates, *inter alia*:

- (a) hold the Trust Assets on trust absolutely for the relative Certificateholders as beneficial tenants in common *pro rata* according to the face amount of Certificates held by each Certificateholder; and
- (b) act as trustee in respect of the relative Trust Assets, distribute the income from such Trust Assets and perform its duties in accordance with the provisions of the Trust Deed.

In the Trust Deed, the Trustee will irrevocably and unconditionally delegate to the Delegate the performance of the present and future duties, powers, authorities and discretions vested in the Trustee by the relevant provisions of the Trust Deed (including but not limited to the authority to request instructions from any Certificateholders and the power to make any determinations to be made under the Trust Deed). The appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as trustee.

In each Trust Deed the Delegate will undertake that, *inter alia*:

- (a) it may or shall (subject to being indemnified and/or secured to its satisfaction) upon being directed to do so by the Certificateholders enforce the obligations of Dubai Bank under the Trust Deed, the Purchase Undertaking and any other Transaction Document to which Dubai Bank is a party; and
- (b) following the occurrence of a Dissolution Event in respect of any Series of Trust Certificates and subject to Condition 14, it shall (subject to being indemnified and/or secured to its satisfaction) (i) promptly notify the Certificateholders of the occurrence of such Dissolution Event, and (ii) take all such steps as are necessary to enforce the obligations of Dubai Bank under the Trust Deed, the Purchase Undertaking and any other Transaction Document to which Dubai Bank is a party.

A Transaction Account will be established in respect of each Series of Trust Certificates. Monies received in the Transaction Account in respect of each Series will, *inter alia*, comprise (i) payments from the relevant Return Collection Account immediately prior to each Periodic Distribution Date (see “*Summary of the Principal Transaction Documents – Management Agreement*” below), (ii) payments from the Investment Manager under the Investment Management Agreement (see “*Summary of the Principal Transaction Documents – Investment Management Agreement*” below) and (iii) the Exercise Price received from Dubai Bank under the relevant Sale Agreement (see “*Summary of the Principal Transaction Documents – Purchase Undertaking*” and “*Summary of the Principal Transaction Documents – Sale Undertaking*” below). The Master Trust Deed provides that all monies credited to the Transaction Account in respect of each Series will be applied in the order of priority set out in Condition 5.2.

In the Trust Deed, Dubai Bank has undertaken to the Issuer and the Delegate that, if any amount payable by Dubai Bank to the Issuer pursuant to any Transaction Document is not recoverable from Dubai Bank for any reason whatsoever or the Issuer suffers any cost, expense or loss as a result of the Issuer’s holding of a co-ownership interest in the Income Generating Assets, which cost, expense or loss is not recoverable under the Master Purchase Agreement or the related Supplemental Purchase Contract, then Dubai Bank will, as a sole, original and independent obligor, forthwith upon demand by the Issuer or the Delegate pay such sum by way of a full indemnity in the manner and currency as is provided for in the relevant Transaction Document and indemnify the Issuer against all losses, claims, costs, charges and expenses to which it may be subject or which it may incur under or in respect of the Transaction Documents.

The Master Purchase Agreement, as supplemented by each Supplemental Purchase Contract

The Master Purchase Agreement was entered into on 24 September 2008 between Dubai Bank and the Issuer (including in its capacity as Trustee). In relation to each Series of Trust Certificates, a Supplemental Purchase Contract will be entered into by Dubai Bank and the Issuer (including in its capacity as Trustee) which shall set out the details of the sale of the co-ownership interest in the relevant Income Generating Assets. The Master Purchase Agreement and each Supplemental Purchase Contract applicable to a Series of Trust Certificates are, and will be, governed by the laws of Dubai and to the extent applicable in Dubai, the federal laws of the UAE.

On the Issue Date of the relevant Series, Dubai Bank will agree to sell to the Issuer a co-ownership interest in the Income Generating Assets identified in a schedule to the relevant Supplemental Purchase Contract. To the extent that any transfer of such co-ownership interest in any of the Income Generating Assets is not effective in any jurisdiction for any reason, Dubai Bank has, in the Purchase Undertaking, agreed to make restitution in respect of all amounts received by it in respect of those Income Generating Assets.

The purchase price payable for the co-ownership interest in the Income Generating Assets of any relevant Series of Trust Certificates will be set out in the relevant Supplemental Purchase Contract.

Management Agreement

The Management Agreement was entered into on 24 September 2008 between the Issuer (including in its capacity as Trustee) and Dubai Bank, in its capacities as a co-owner and as managing agent of the Income Generating Assets (in such latter capacity, the **Managing Agent**) and is governed by English law.

The Issuer has appointed the Managing Agent to service its co-ownership interest in the Income Generating Assets applicable to each Series of Trust Certificates. In particular, the Managing Agent will:

- (a) do all acts and things (including execution of such documents, issue of notices and commencement of any proceedings) that it reasonably considers necessary to ensure the assumption of, and compliance by each transaction party with, its covenants, undertakings or other obligations under the transaction to which it is party in accordance with applicable law and terms of the transaction contracts;
- (b) use its reasonable endeavours to discharge all obligations in respect of any assets that are at any time the subject of a transaction contract which is an *ijara* contract (the **Leased Income Generating Assets**) required by the *Sharia* to be assumed by a lessor, including: (A) procuring the *takaful*

(insurance) (if available) of any Leased Income Generating Assets against such risks (including, without limitation, fire, flooding and natural perils) in an amount sufficient to reinstate the assets in full and shall diligently procure or make and pursue any claim under such insurance; (B) all structural repair and major maintenance without which the Leased Income Generating Assets could not be reasonably and properly used by a lessee; and (C) where applicable, payment of all taxes in relation to the Leased Income Generating Assets by law imposed, charged or levied against a proprietor, but excluding all taxes that are by law imposed, charged or levied against a lessee, it being acknowledged that the Managing Agent may appoint one or more agent(s) acting as a service agent to discharge these obligations on its behalf;

- (c) use its reasonable endeavours to procure that any service agent appointed by Dubai Bank in respect of the Leased Income Generating Assets carries out the duties that it has contracted to perform;
- (d) use its reasonable endeavours to ensure the timely receipt of all Co-ownership Revenues, investigate non payment of Co-ownership Revenues and generally make all reasonable efforts to collect or enforce the collection of such Co-ownership Revenues under the relevant contract as and when the same shall become due;
- (e) maintain each Collection Account in accordance with the Management Agreement;
- (f) obtain all necessary authorisations in connection with any of the Income Generating Assets and its obligations under or in connection with the Management Agreement;
- (g) use any monies standing to the credit of the Return Collection Reserve Account (as defined in the Management Agreement) failing which it shall provide *Sharia*-compliant funding on terms that it is repayable only on the first Business Day following the redemption of the Trust Certificates to ensure that the Issuer receives on each Distribution Date the full amount of the Periodic Distribution Amount payable by it in respect of such Trust Certificates on the next following Periodic Distribution Date specified in the applicable Final Terms; and
- (h) carry out any incidental matters relating to any of the above.

The Managing Agent shall perform its duties under the Management Agreement in accordance with all applicable laws and regulations, with the degree of skill and care that it would exercise in respect of its own assets and in accordance with *Sharia* principles determined by its *Sharia* supervisory board.

Dubai Bank shall be entitled to receive a fee for acting as Managing Agent which will comprise a fixed basic fee of US\$100 and may also receive an incentive fee calculated as the remaining amounts available from the application of profit collections.

The Managing Agent will maintain three ledger accounts (referred to as the Base Amount Collection Account, the Return Collection Account and the Return Collection Reserve Account, respectively, the **Collection Accounts**) in respect of each Series of Trust Certificates. All monies received by the Managing Agent in respect of Income Generating Assets of each Series will be recorded, to the extent that they comprise the Issuer's share of return in respect of profit on Income Generating Assets (**Return Co-ownership Revenues**), in the Return Collection Account, to the extent that they are attributable to the Issuer and not Return Co-ownership Revenues or monies to be credited to the Return Collection Reserve Account as provided below, in the Base Amount Collection Account and, to the extent provided in Condition 5.2, in the Return Collection Reserve Account. In addition profit received by the Investment Manager in respect of the Investment will be paid to the Managing Agent and shall be credited to the Return Collection Account. Amounts standing to the credit of the Return Collection Account will be applied by the Managing Agent in the following order of priority:

- (a) first, payment of all or any due and payable Co-ownership Liabilities Amounts; and
- (b) second, to the Issuer in the manner provided below.

In the case of amounts credited to Return Collection Account which are payable to the Issuer such amounts (to the extent necessary to pay the Periodic Distribution Amount due) will be paid into the relevant

Transaction Account immediately prior to the next following Periodic Distribution Date. Any remaining amounts will be debited from the Return Collection Account and credited to the Return Collection Reserve Account.

Amounts credited to the Base Amount Collection Account will be applied by the Managing Agent in acquiring co-ownership interests in further assets of Dubai Bank such that the assets become Income Generating Assets, all on and subject to the terms of the Transaction Documents and, to the extent that no Income Generating Assets are available, shall be paid to the Investment Manager for application in accordance with the Investment Management Agreement.

In the event that Dubai Bank fails to pay the Exercise Price (as defined in the Purchase Undertaking) in accordance with the Purchase Undertaking, the Issuer's entitlement to Co-ownership Revenues in respect of its co-ownership interest will accrue on a daily basis for the period from, and including, the date on which the Exercise Price should have been paid and ending on, but excluding, the date of payment in full of the Exercise Price in accordance with the Purchase Undertaking. In addition, upon the occurrence of a Dissolution Event or a Change of Control Put Event or the giving by the Issuer of notice pursuant to Condition 11.2 or 11.3, the Relevant Proportion of the Return Co-ownership Revenues net of any applicable Co-ownership Liabilities Amount for the period from and including the last Periodic Distribution Date in respect of which a Periodic Distribution was made in respect of the Certificates to but excluding the Dissolution Date specified in the Exercise Notice, the Change of Control Put Date, the Dissolution Date (Tax) or the Optional Dissolution Date, as the case may be, will (provided that the relevant Dissolution Date, Change of Control Put Date, Dissolution Date (Tax) or Optional Dissolution Date is not a Periodic Distribution Date) be paid in cleared funds (free and clear of any deductions or any set off or any counterclaim) into the Transaction Account on or before the relevant Dissolution Date, Change of Control Put Date, Dissolution Date (Tax) or Optional Dissolution Date.

The Managing Agent will agree in the Management Agreement that all payments by it under the Management Agreement will be made without any deductions or withholding for or on account of tax unless required by law and without set-off or counterclaim and, in the event that there is any deduction or withholding, the Managing Agent shall pay all additional amounts as will result in the receipt by the Issuer of such net amounts as would have been received by it if no withholding or deduction had been made.

The payment obligations of the Managing Agent under the Management Agreement are and will be direct, unconditional, unsecured and general obligations of the Managing Agent and shall rank at least *pari passu* with all other unsecured, unsubordinated and general obligations of the Managing Agent.

All records in respect of the Income Generating Assets will be retained by Dubai Bank.

Investment Management Agreement

The Investment Management Agreement was entered into on 24 September 2008 between the Issuer (including in its capacity as trustee) and Dubai Bank, in its capacity as investment manager (in such capacity, the **Investment Manager**) and is governed by English law.

The Issuer has appointed the Investment Manager to invest amounts (the **Investment Amounts**) paid to it by the Issuer in respect of each Series of Trust Certificates in the ordinary banking business of Dubai Bank PJSC for a term of three months (the **Investments**). Investments shall pay profit at the rate payable from time to time by Dubai Bank PJSC on other similar investments made with it. For the avoidance of doubt, Investments shall be made in the entire asset base of Dubai Bank PJSC and not in any specific asset or assets. Each Investment, to the extent not utilised in accordance with the second sentence below, will, subject as provided in the next sentence, on expiry of its term, immediately be reinvested on a three-monthly basis. For the avoidance of doubt, the term of each Investment will end, and there will be no requirement for reinvestment thereof, on the Maturity Date or any earlier Dissolution Date. The Investment Management Agreement provides that on or before each Periodic Distribution Date, the Investment Manager will determine whether Dubai Bank has Income Generating Assets in which a co-ownership interest can be sold to the Managing Agent and, if so and to the extent that the Investment is sufficient for the purchase of such co-ownership interest, shall transfer funds from the Base Investment Account (as defined below) to the Managing Agent to

enable such purchase. Each such transfer shall reduce the value of the Investment by an equal amount. Any such Income Generating Assets in respect of which a co-ownership interest is purchased shall thereafter become Income Generating Assets for the purposes of the Management Agreement.

The Investment Manager will maintain a ledger account (referred to as the **Base Investment Account**) in respect of each Series of Trust Certificates. All monies received by the Investment Manager from the Issuer on the Issue Date for investment under the Investment Management Agreement and any monies received by the Investment Manager from the Managing Agent pursuant to the Management Agreement shall be credited to the Base Investment Account. Each expiration and re-investment of the Investment in accordance with the paragraph above will also be recorded in the Base Investment Account. All profit paid in respect of the Investment shall, on receipt, be paid to the Managing Agent for credit to the Return Collection Account. The Investment Manager shall perform its duties under the Investment Management Agreement in accordance with all applicable laws and with the degree of skill and care that it would exercise in respect of its own assets.

Other than the agreed fee of US\$1,000 for the services to be performed by the Investment Manager, the Investment Manager shall not be entitled to receive any other fee for acting as Investment Manager.

The Investment Manager will agree in the Investment Management Agreement that all payments by it under the Investment Management Agreement will be made without any deductions or withholding for or on account of tax unless required by law and without set-off or counterclaim and, in the event that there is any deduction or withholding, the Investment Manager shall pay all additional amounts as will result in the receipt by the Issuer of such net amounts as would have been received by it if no withholding or deduction had been made.

The payment obligations of the Investment Manager under the Investment Management Agreement are and will be direct, unconditional, unsecured and general obligations of the Investment Manager and shall rank at least *pari passu* with all other unsecured, unsubordinated and general obligations of the Investment Manager.

Purchase Undertaking

The Purchase Undertaking was executed by way of deed on 24 September 2008 by Dubai Bank and is governed by English law.

Dubai Bank has irrevocably undertaken in favour of DB Sukuk Company Ltd. to purchase all or, as the case may be, the relevant part of DB Sukuk Company Ltd.'s co-ownership interest in the Income Generating Assets of each Series of Trust Certificates on the relevant Maturity Date or, if earlier, on the Dissolution Date of the relevant Series of Trust Certificates. The price (the **Exercise Price**) payable by Dubai Bank shall be (in the case of exercise of rights in accordance with Clause 3.1(a) or (c) of the Purchase Undertaking) an amount equal to the value of the Issuer's co-ownership interest in the Income Generating Assets relative to the particular Series of Trust Certificates and (in the case of exercise of rights in accordance with Clause 3.1(b) of the Purchase Undertaking) the Put Option Proportion of such value. The value of DB Sukuk Company Ltd.'s co-ownership interest in the Income Generating Assets applicable to each Series of Trust Certificates shall be determined as being equal to the Relevant Proportion of the aggregate of all future contractual payments of fixed rental instalment amounts due and payable in respect of the Income Generating Assets on and after the date of the valuation. The Relevant Proportion is a proportion equal to DB Sukuk Company Ltd.'s co-ownership share in the Income Generating Assets of the relevant Series.

The specific terms applicable to each such sale will be confirmed in a Sale Agreement, to be executed by the Issuer (including in its capacity as Trustee) and Dubai Bank on the Dissolution Date or, as the case may be, the Maturity Date of the relevant Series of Trust Certificates. The form of each such Sale Agreement is appended to the Purchase Undertaking. Each Sale Agreement will be governed by the laws of Dubai and the federal laws of the UAE.

In the Purchase Undertaking, the Bank has undertaken that, so long as any Trust Certificate remains outstanding, the Bank will not, and will ensure that none of its Subsidiaries will, create or have outstanding any mortgage, charge, lien, pledge or other security interest (other than a Permitted Security Interest), upon

the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness without at the same time or prior thereto according to the Trust Certificates the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as either (i) the Delegate shall in its absolute discretion deem not materially less beneficial to the interests of the Certificateholders or (ii) shall be approved by an Extraordinary Resolution of the Certificateholders.

For these purposes:

Permitted Security Interest means any mortgage, charge, lien, pledge or other security interest securing Relevant Indebtedness of any person and/or its Subsidiaries existing at the time that such person is acquired by, merged into or consolidated with the Bank or a Subsidiary provided that such mortgage, charge, lien, pledge or other security interest was not created in contemplation of such acquisition, merger or consolidation and does not extend to any other assets or property of the Bank or any Subsidiary.

Relevant Indebtedness means any obligation to pay monies under a purchase or sale undertaking or other *Sharia*-compliant documentation entered into in connection with certificates or other *Sharia*-compliant instruments representing beneficial interests in a trust issued by a separate entity which for the time being are, or are intended to be or are capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market.

a **Subsidiary** of a company (the **parent**) shall be construed as a reference to any company:

- (a) which is controlled by the parent; or
- (b) more than half the issued share capital of which is beneficially owned, directly or indirectly, by the parent; or
- (c) which is a subsidiary of another subsidiary of the parent,

but excluding any self-sponsored funds intended to be marketed to the public which may, by virtue of their accounting treatment only, come to be viewed as subsidiaries for accounting purposes on the balance sheet of the Bank by virtue of the provision by the Bank of initial seed capital or similar funds provided to such entity by way of start-up capital and without the intention of any long-term holding, all in the ordinary course of the Bank's investment management business. For these purposes, a company shall be treated as being **controlled** by the parent if the parent (whether directly or indirectly and whether by ownership of share capital, the possession of voting power, contract, trust or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of the company or otherwise controls, or has the power to control, the affairs and policies of the company.

The Bank has made the undertaking above on the basis that, as a *Sharia*-compliant institution the Bank cannot issue debt securities which are not in a *Sharia*-compliant form. In the event that the Bank ceases to be a *Sharia*-compliant institution or becomes able to issue debt securities which are not *Sharia*-compliant, the Bank has undertaken to amend the definition of Relevant Indebtedness above so that it includes non-*Sharia*-compliant debt securities.

In addition, Dubai Bank has agreed that each of the following events will constitute a **Dubai Bank Event**:

- (a) the Bank (acting in any capacity) fails to pay any amount payable by it to the Issuer pursuant to any Transaction Document unless its failure is due to an administrative or technical error and such payment is made within 3 Business Days of its due date; or
- (c) the Bank (acting in any capacity) fails to perform or observe any of its covenants and/or obligations under any Transaction Document and such default is incapable of remedy or, if, in the opinion of the Delegate, is capable of remedy, is not, in the opinion of the Delegate, remedied within 30 days after notice of such default shall have been given to the Bank by the Delegate; or
- (d) any Relevant Indebtedness or other indebtedness of the Bank or any of its Subsidiaries (or any guarantee or indemnity given by any of them in respect of any Relevant Indebtedness or other

indebtedness of others) is not paid when due or within any originally applicable grace period or any such Relevant Indebtedness or other indebtedness is declared to be or otherwise becomes due and payable prior to its specified maturity (and, in the case of a guarantee or indemnity, is called) as a result of an event of default (however described) or any creditor of the Bank or any of its Subsidiaries becomes entitled to declare any such Relevant Indebtedness or other indebtedness due and payable prior to its specified maturity as a result of an event of default (however described) provided, however, that it shall not constitute a Dubai Bank Event unless the aggregate amount (or its equivalent in US dollars) of all such Relevant Indebtedness or other indebtedness, guarantees or indemnities either alone or when aggregated with all other Relevant Indebtedness or other indebtedness, guarantees or indemnities which shall remain unpaid or unsatisfied, as the case may be, shall be more than US\$10,000,000 (or its equivalent in any other currencies); or

- (e) the Bank or any of its Material Subsidiaries takes any corporate action or other steps are taken or legal proceedings are started for its winding-up, nationalisation, dissolution, administration or re-organisation (whether by way of voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a liquidator, receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of any substantial part or all of its revenues and assets, except for the purposes of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Bank or another Subsidiary of the Bank; or
- (f) the Bank or any of its Material Subsidiaries ceases to carry on the whole or a substantial part of its business except for the purposes of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Bank or another Material Subsidiary of the Bank; or
- (g) the Bank or any of its Material Subsidiaries is (or is deemed by a court or any applicable legislation to be) insolvent or bankrupt or unable to pay all or a material part of its debts as the same fall due, or stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, or commences negotiations with its creditors as a whole or any one or more classes of its creditors with a view to the general readjustment or rescheduling of all or a material part of its debts or proposes or makes a general assignment for the benefit of or an arrangement or a composition with its creditors in respect of such debts; or
- (h) any expropriation, execution, attachment, distress, sequestration or other similar legal process made pursuant to a court order or judgment or arising by virtue of any law or regulation affects the whole or any substantial part of the property of the Bank or any of its Material Subsidiaries.
- (i) the Bank or any of its Material Subsidiaries fails to comply with or pay any sum which amount shall not be less than US\$10,000,000 due from it under any final non-appealable judgment or any final non-appealable order made or given by any court of competent jurisdiction and such failure continues for period of 30 days next following the service by the Delegate on the Bank of notice requiring the same to be paid/remedied; or
- (j) by or under the authority of any government or governmental body, (A) the management of the Bank or any of its Material Subsidiaries is wholly or partially displaced or the authority of the Bank or any of its Material Subsidiaries in the conduct of its business is wholly or partially curtailed or (B) all or a majority of the issued shares of the Bank or any of its Material Subsidiaries or the whole or any part of their respective revenues or assets is seized, nationalised, expropriated or compulsorily acquired; or
- (k) the Bank repudiates any Transaction Document to which it is a party or at any time it is or becomes unlawful for the Bank (acting in any capacity) to perform or comply with any or all of its material

obligations under or in respect of the Transaction Documents to which it is a party or any of the material (in the opinion of the Delegate) obligations of the Bank (acting in any capacity) thereunder are not or cease to be legal, valid, binding and enforceable; or

- (l) any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Bank or any of its Material Subsidiaries in respect of all or a material part of the property, assets or revenues of the Bank or any of its Material Subsidiaries, as the case may be, becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person); or
- (m) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Bank (acting in any capacity) lawfully to enter into, exercise its rights and perform and comply with its obligations under any Transaction Document, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Transaction Documents admissible in evidence in the courts of Dubai is not taken, fulfilled or done and, in each case, is incapable of remedy or, if, in the opinion of the Delegate, is capable of remedy, is not, in the opinion of the Delegate, remedied within 30 days after written notice requiring remedy shall have been given to the Bank by the Delegate; or
- (n) or any event occurs which under the laws of any other relevant jurisdiction has a similar or analogous effect to any of the events described in (d), (f) and (g) above,

provided, however, that (except in the case of paragraph (a), (c), (d) (to the extent that it relates to the Bank) and (f) (to the extent that it relates to the Bank) above), such event will only constitute a Dubai Bank Event if the Delegate has certified in writing to the Issuer that such event, in the opinion of the Delegate, is materially prejudicial to the interests of Certificateholders.

The occurrence of a Dubai Bank Event will also be a Dissolution Event allowing the Trustee, at its option to declare (or, upon written request of Certificateholders representing not less than one-fifth in face amount of the relevant Series of Trust Certificates for the time being outstanding and subject to being indemnified and/or secured to its satisfaction, requiring it to declare) the Trust Certificates of the relevant Series to be immediately due and payable.

For this purpose:

Material Subsidiary means any Subsidiary:

- (i) whose total revenue or whose total assets represent not less than 5 per cent. of the consolidated total revenue of the Bank, or, as the case may be, the consolidated total assets of the Bank, in each case as determined by reference to the Relevant Financial Statements; and/or
- (ii) to which is transferred all or substantially all of the business, undertaking and assets of another Subsidiary which immediately prior to such transfer is a Material Subsidiary, whereupon (a) in the case of a transfer by a Material Subsidiary, the transferor Material Subsidiary shall immediately cease to be a Material Subsidiary and (b) the transferee Subsidiary shall immediately become a Material Subsidiary, provided that on or after the date on which the Relevant Financial Statements for the financial period current at the date of such transfer are published, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Material Subsidiary shall be determined pursuant to the provisions of sub-paragraph (i) above.

A report by two duly authorised officers of the Bank that in their opinion (making such adjustments (if any) as they shall deem appropriate) a Subsidiary is or is not or was or was not at any particular time or during any particular period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding;

Relevant Financial Statements means, in relation to the Bank, its most recently available consolidated audited financial statements prepared in accordance with international financial reporting standards (**IFRS**) and, in relation to a Subsidiary, its most recently available audited financial statements (consolidated if the same are prepared) prepared in accordance with IFRS; and

the **winding-up, dissolution or administration** of a company or corporation shall be construed so as to include any equivalent or analogous proceedings under the law of the jurisdiction in which such company or corporation is incorporated or any jurisdiction in which such company or corporation carries on business including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief of debtors.

Dubai Bank has agreed in the Purchase Undertaking that, to the extent that the sale and purchase or transfer of any co-ownership interest in its undivided rights, title, interests, benefits and entitlements in any Income Generating Assets is not effective in any jurisdiction for any reason, it will agree in consideration for the payment of the relevant purchase price to make payment of the relevant purchase price by way of restitution to the Issuer immediately upon request.

Dubai Bank has agreed in the Purchase Undertaking that all payments by it under the Purchase Undertaking and any Sale Agreement will be made without any deductions or withholding for or on account of tax unless required by law and without set-off or counterclaim and, in the event that there is any deduction or withholding, Dubai Bank shall pay all additional amounts as will result in the receipt by the Issuer of such net amounts as would have been received by it if no deduction or withholding had been made.

The payment obligations of Dubai Bank under the Purchase Undertaking are and will be direct, unconditional, unsecured and general obligations of Dubai Bank and shall rank at least *pari passu* with all other unsecured, unsubordinated and general obligations of Dubai Bank.

Sale Undertaking

The Sale Undertaking was executed as a deed on 24 September 2008 by the Issuer as trustee for the Certificateholders in favour of Dubai Bank and is governed by English law.

Pursuant to the Sale Undertaking and subject to the Issuer being entitled to redeem the Certificates for tax reasons in accordance with Condition 11.2, Dubai Bank may, by exercising its right under the Sale Undertaking and serving notice on the Issuer no later than 60 days prior to the Dissolution Date (Tax), oblige the Issuer to sell the Issuer's co-ownership interest in the Income Generating Assets of any Series of Trust on the Dissolution Date (Tax). The price (the **Exercise Price**) payable by Dubai Bank shall be an amount equal to the value of the Issuer's co-ownership interest in the Income Generating Assets relative to the particular Series of Trust Certificates. The value of DB Sukuk Company Ltd.'s co-ownership interest in the Income Generating Assets applicable to each Series of Trust Certificates shall be determined as being equal to the Relevant Proportion of the aggregate of all future contractual payments of fixed rental instalment amounts due and payable in respect of the Income Generating Assets on and after the date of the valuation. The Relevant Proportion is a proportion equal to DB Sukuk Company Ltd.'s co-ownership share in the Income Generating Assets of the relevant Series.

Costs Undertaking

The Costs Undertaking was executed by way of deed on 24 September 2008 by Dubai Bank and is governed by English law. Pursuant to the Costs Undertaking, the Bank will pay certain fees and expenses of, and indemnify against certain losses of, among others, the Delegate and the Agents.

TAXATION

The following is a general description of certain tax considerations relating to the Trust Certificates. It does not purport to be a complete analysis of all tax considerations relating to the Trust Certificates. Prospective purchasers of Trust Certificates should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes of acquiring, holding and disposing of Trust Certificates and receiving payments of profit, principal and/or other amounts under the Trust Certificates. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

United Arab Emirates

The following summary of the anticipated tax treatment in the UAE in relation to the payments on the Trust Certificates is based on the taxation law and practice in force at the date of this Base Prospectus, and does not constitute legal or tax advice and prospective investors should be aware that the relevant fiscal rules and practice and their interpretation may change. Prospective investors should consult their own professional advisers on the implications of subscribing for, buying, holding, selling, redeeming or disposing of Trust Certificates and the receipt of any payments in respect of any Periodic Distribution Amounts and distributions (whether or not on a winding-up) with respect to such Trust Certificates under the laws of the jurisdictions in which they may be liable to taxation.

There is currently in force in the Emirates of Abu Dhabi and Dubai legislation establishing a general corporate taxation regime (the Abu Dhabi Income Tax Decree 1965 (as amended) and the Dubai Income Tax Decree 1969 (as amended)). The regime is, however, not enforced save in respect of companies active in the hydrocarbon industry, some related service industries and branches of foreign banks operating in the United Arab Emirates. It is not known whether the legislation will or will not be enforced more generally or within other industry sectors in the future. Under current legislation, there is no requirement for withholding or deduction for or on account of UAE, Abu Dhabi or Dubai taxation in respect of payments on debt securities (including Periodic Distribution Amounts or the Dissolution Amounts in relation to the Trust Certificates).

The Constitution of the UAE specifically reserves to the Federal Government of the UAE the right to raise taxes on a federal basis for purposes of funding its budget. It is not known whether this right will be exercised in the future.

The United Arab Emirates has entered into double taxation arrangements with certain other countries, but these are not extensive in number.

Cayman Islands

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of present legislation. On 29 April 2008 the Issuer received an undertaking from the Governor in Cabinet of the Cayman Islands, pursuant to the Tax Concessions Law (as revised) of the Cayman Islands, that for a period of 20 years from the date of grant of that undertaking no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Issuer or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations which is in the nature of estate duty or inheritance tax shall be payable on or in respect of the shares, debentures or other obligations (which includes the Trust Certificates) of the Issuer or by way of the withholding in whole or part of any relevant payment. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Trust Certificates. However, an instrument transferring title to such Trust Certificates, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. An annual registration fee is payable by the Trustee to the Cayman Islands Registrar of Companies which is calculated by reference to the nominal amount of its authorised capital. At current rates, this annual registration fee is approximately US\$575. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income, which may include Periodic Distribution Amounts) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending as of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (the **Programme Agreement**) dated 24 September 2008, agreed with the Issuer and the Bank a basis upon which they or any of them may from time to time agree to purchase Trust Certificates. Any such agreement will extend to those matters stated under “*Terms and Conditions of the Trust Certificates*”. In the Programme Agreement, each of the Issuer and the Bank has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Trust Certificates under the Programme.

United States

The Trust Certificates have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Dealer has represented and agreed that it has offered and sold any Trust Certificates, and will offer and sell any Trust Certificates (a) as part of their distribution at any time and (b) otherwise until 40 days after the completion of the distribution of all Trust Certificates of the Series of which such Trust Certificates are a part as determined and certified as provided below, only in accordance with Rule 903 of Regulation S under the Securities Act. Each Dealer who purchases Trust Certificates of a Series (or in the case of a sale of a Series of Trust Certificates issued to or through more than one Dealer, each of such Dealers as to the Trust Certificates of such Series to be purchased by or through it or, in the case of a syndicated issue, the relevant Lead Manager) shall determine and certify to the Principal Paying Agent the completion of the distribution of the Trust Certificates of such Series. On the basis of such notification or notifications, the Principal Paying Agent has agreed to notify such Dealer/Lead Manager of the end of the distribution compliance period with respect to such Series. Each Dealer has also agreed that, at or prior to confirmation of sale of Trust Certificates, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Trust Certificates from it during the distribution compliance period a confirmation or notice to substantially the following effect:

“The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Securities as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S.”

Terms used in this sub-section have the meanings given to them by Regulation S.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Trust Certificate, and it and they have complied and will comply with the offering restrictions requirement of Regulation S.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Trust Certificates which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Trust Certificates to the public in that Relevant Member State:

- (a) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Trust Certificates referred to in (a) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Trust Certificates to the public** in relation to any Trust Certificates in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Trust Certificates to be offered so as to enable an investor to decide to purchase or subscribe the Trust Certificates, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Trust Certificates which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Trust Certificates other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Trust Certificates would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Trust Certificates in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Bank; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Trust Certificates in, from or otherwise involving the United Kingdom.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) the Trust Certificates to be issued under the Programme have not been and will not be publicly offered, sold or promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities; and
- (b) the information contained in this Base Prospectus does not constitute an offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law No. 8 of 1986 (as amended)) or otherwise and is not intended to be a public offer and the information contained

in this Base Prospectus is not intended to lead to the conclusions of any contract of whatsoever nature within the territory of the United Arab Emirates.

Dubai International Financial Centre

The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Trust Certificates to be issued under the Programme to any person in the Dubai International Financial Centre unless such offer is (a) deemed to be an “Exempt Offer” in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the **DFSA Rules**); and (b) made only to persons of a type specified in the DFSA Rules.

Kingdom of Saudi Arabia

Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a **Saudi Investor**) who acquires Trust Certificates pursuant to an offering should note that the Offer of Trust Certificates is a limited offer under Article 11 of the “Offer of Securities Regulations” as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the **KSA Regulations**). Each Dealer represents, warrants and agrees, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that any offer of Trust Certificates will not be directed at more than 60 Saudi Investors (excluding “Sophisticated Investors” (as defined in Article 10 of the KSA Regulations)) and the minimum amount payable per Saudi Investor will be not less than Saudi Riyal (**SR**) 1 million or an equivalent amount.

Each offer of Trust Certificates shall not therefore constitute a “public offer” pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Trust Certificates pursuant to a limited offer may not offer or sell those Trust Certificates to any person unless the offer or sale is made through an authorised person appropriately licensed by the Saudi Arabian Capital Market Authority and (a) the Trust Certificates are offered or sold to a Sophisticated Investor; (b) the price to be paid for the Trust Certificates in any one transaction is equal to or exceeds SR 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

Kingdom of Bahrain

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer Trust Certificates to the public (as defined in Articles 142-146 of the Commercial Companies Law (Decree Law No. 21/2001) of Bahrain) in Bahrain.

Malaysia

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the offer of Trust Certificates in Malaysia can only be made to investors specified in Schedules 2, 3 and 5 of the Securities Commission Act 1993 (i.e., sophisticated investors, e.g. unit trust schemes, licensed dealers, closed-end funds, fund managers, licensed financial institutions, licensed offshore banks, licensed insurance companies, corporations with total net assets exceeding ten million Malaysian ringgit or its equivalent in foreign currencies, statutory bodies and pension funds).

Kuwait

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Trust Certificates have not been and will not be offered, sold or promoted or advertised by it in the State of Kuwait other than in compliance with the Decree Law No. 31 of 1990, as amended, and the Ministerial Order No. 113 of 1992, as amended governing the issue, offering and sale of securities.

In particular, each Dealer has agreed that, and each further Dealer appointed under the Programme will be required to agree that, no private or public offering of the Trust Certificates may be made in Kuwait, no agreement relating to the sale of any Trust Certificates may be concluded in Kuwait and no marketing or solicitation or inducement activities may be used to offer or market any Trust Certificates in Kuwait.

State of Qatar

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that no general offering of the Trust Certificates will be made in Qatar and that Trust Certificates may only be placed in Qatar with a limited number of targeted investors.

Cayman Islands

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it shall not make any invitation to the public in the Cayman Islands to subscribe for any Trust Certificates. The Base Prospectus must not be circulated to the public in the Cayman Islands.

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Trust Certificates or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Trust Certificates under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the Bank, the Delegate and any other Dealer shall have any responsibility therefor.

None of the Issuer, the Bank, the Delegate and any of the Dealers represents that Trust Certificates may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

With regard to each Series, the relevant Dealer will be required to comply with any additional restrictions agreed between the Issuer and the relevant Dealer and set out in the applicable Final Terms.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Trust Certificates have been duly authorised by a resolution of the Board of Directors of the Issuer dated 13 August 2008. The Issuer has obtained all necessary consents, approvals and authorisations in the Cayman Islands in connection with the issue and performance of the Trust Certificates. The entry into the Transaction Documents to which it is a party (other than any supplemental documents specific to a particular Series) was authorised, respectively, by the directors of the Bank on 4 September 2008. In addition, the Bank has agreed in the Programme Agreement that it will be a condition precedent to any issue of Trust Certificates that the prior approval of its shareholders will be obtained.

Listing of Trust Certificates

It is expected that each Series of Trust Certificates which is to be admitted to the Official List and to trading on the London Stock Exchange's regulated market will be admitted separately as and when issued, subject only to the issue of a Global Trust Certificate initially representing the Trust Certificates of such Series. Application has been made to the UK Listing Authority for Trust Certificates issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Trust Certificates to be admitted to trading on the London Stock Exchange's regulated market. The listing of the Programme in respect of Trust Certificates is expected to be granted on or before 24 September 2008.

Application has also been made for Trust Certificates issued under the Programme during the period of 12 months from the date hereof to be listed on the primary market of the DIFX but there can be no assurance that any such listing will occur on or prior to the date of issue of the relevant Trust Certificates or at all.

Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available for inspection from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

- (a) the Amended and Restated Memorandum and Articles of Association of the Issuer;
- (b) the audited financial statements of the Bank in respect of the financial years ended 31 December 2005 and 31 December 2006 and the consolidated audited financial statements of the Bank for the financial year ended 31 December 2007. The Bank currently prepares consolidated audited accounts on an annual basis;
- (c) the most recently published condensed consolidated unaudited interim financial statements (if any) of the Bank;
- (d) the Master Purchase Agreement, the Programme Agreement, the Master Trust Deed, the Agency Agreement, the Management Agreement, the Investment Management Agreement, the Purchase Undertaking, the Sale Undertaking, the Costs Undertaking and the forms of the Global Trust Certificate and the Trust Certificates in definitive form;
- (e) any Supplemental Purchase Contract and Supplemental Trust Deed in relation to Trust Certificates which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system;
- (f) a copy of this Base Prospectus;
- (g) any future offering circulars, prospectuses, information memoranda and supplements to this Base Prospectus and any other documents incorporated herein or therein by reference; and
- (h) the applicable Final Terms and, in the case of each issue of Trust Certificates which is listed on the London Stock Exchange subscribed pursuant to a subscription agreement, the subscription agreement

(or equivalent document) (save that a subscription agreement and Final Terms relating to a Trust Certificate which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Trust Certificate and such holder must produce evidence satisfactory to the Issuer and the Principal Paying Agent as to its holding of Trust Certificates and identity).

- (i) The Base Prospectus will be published on the website of the Regulatory News Service opened by the London Stock Exchange at www.londonstockexchange.com/en-gb/pricesnews/marketnews and on the website of the DIFX at www.difx.ae. The constitutional documents of the Issuer will also be published on the website of the DIFX at www.difx.ae.

Clearing Systems

The Trust Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Series of Trust Certificates allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Trust Certificates are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L1855 Luxembourg.

Significant or Material Change

There has been no significant change in the financial or trading position of the Bank and its subsidiaries since 30 June 2008 and there has been no material adverse change in the financial position or prospects of the Bank and its subsidiaries since 31 December 2007.

There has been no significant change in the financial or trading position of the Issuer and no material adverse change in the financial position or prospects of the Issuer, in each case, since the date of its incorporation.

Litigation

Neither the Issuer nor the Bank (including any of its subsidiaries) is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Bank is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Bank (including any of its subsidiaries).

Auditors

The financial statements of the Bank as of 31 December 2005, 2006 and 2007 and for the years then ended, included in the Base Prospectus, have been audited by Ernst & Young, independent auditors, as stated in their reports appearing herein.

The unaudited interim financial statements of the Bank as of 30 June 2008 and for the six months then ended, included in the Base Prospectus, have been reviewed by Ernst & Young as stated in their review report appearing herein.

The auditors of the Bank have no material interest in the Bank.

Dealers transacting with the Bank

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Bank (and its affiliates) in the ordinary course of business.

DIFC Legend

Each Trust Certificate will bear the following legend:

“No offer of the Trust Certificates may be made to any person in the Dubai International Financial Centre (**DIFC**) unless such offer is (a) deemed to be an “Exempt Offer” in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the **Rules**) and (b) made to Qualified Investors as defined in the Rules. Persons into whose possession this Trust Certificate may come must inform themselves about the nature of this certificate as a restricted security and observe, any applicable restrictions in any relevant jurisdiction on the offering, purchase and sale of the Certificates.”

Sharia Advisory Board

The transaction structure relating to the Trust Certificates (as described in this Base Prospectus) has been approved by the Sharia Advisory Board of Dubai Bank PJSC. Prospective Certificateholders should not rely on the approval referred to above in deciding whether to make an investment in the Trust Certificates and should consult their own *Sharia* advisers as to whether the proposed transaction described in the approval referred to above is in compliance with *Sharia* principles.

FINANCIAL INFORMATION

| | |
|--|------|
| Independent auditors' review report in respect of the unaudited interim condensed consolidated financial statements of Dubai Bank PJSC for the six month period ended 30 June 2008 | F-1 |
| Unaudited interim condensed consolidated financial statements of Dubai Bank PJSC for the six-month period ended 30 June 2008 | F-2 |
| Independent auditors' report in respect of the consolidated financial statements of Dubai Bank PJSC for the year ended 31 December 2007 | F-13 |
| Consolidated financial statements of Dubai Bank PJSC for the year ended 31 December 2007 | F-15 |
| Independent auditors' report in respect of the financial statements of Dubai Bank PJSC for the year ended 31 December 2006 | F-53 |
| Financial statements of Dubai Bank PJSC for the year ended 31 December 2006 | F-55 |
| Independent auditors' report in respect of the financial statements of Dubai Bank PJSC for the year ended 31 December 2005 | F-77 |
| Financial statements of Dubai Bank PJSC for the year ended 31 December 2005 | F-78 |



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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF DUBAI BANK PJSC

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Dubai Bank PJSC and its subsidiaries ("the Bank") as at 30 June 2008, comprising of the interim consolidated balance sheet as at 30 June 2008 and the related interim condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

A handwritten signature in black ink that reads "Ernst & Young".

Signed by
Edward Quinlan
Partner
Registration No. 93

27 July 2008

Dubai

Dubai Bank PJSC and subsidiaries

INTERIM CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2008 (Unaudited)

| | Note | <i>Six months ended 30 June</i> | |
|--|------|---------------------------------|-----------|
| | | 2008 | 2007 |
| | | AED'000 | AED'000 |
| Income from Islamic financing and investing assets | | 327,686 | 239,666 |
| Depositors' share of profits | | (113,624) | (136,350) |
| | | 214,062 | 103,316 |
| Fees, commission and other income | | 54,402 | 21,847 |
| Gain on sale of available for sale investments | 4 | 105,392 | 43,891 |
| | | 159,794 | 65,738 |
| Net trading income in foreign exchange currencies | | 15,721 | 6,009 |
| EXPENSES | | | |
| General and administrative expenses | 5 | (161,938) | (93,372) |
| Provision reversal / (charge) for impairment of Islamic financing and investing assets | | 4,381 | (530) |
| | | (157,557) | (93,902) |
| PROFIT FOR THE PERIOD | | 232,020 | 81,161 |

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

Dubai Bank PJSC and subsidiaries
 INTERIM CONSOLIDATED BALANCE SHEET
 As at 30 June 2008

| | <i>Notes</i> | 30 June 2008 AED'000 (Unaudited) | 31 December 2007 AED'000 (Audited) |
|---|--------------|---|---|
| ASSETS | | | |
| Cash and balances with UAE Central Bank | | 1,596,234 | 1,622,803 |
| Balances and deposits with banks | 6 | 986,527 | 471,826 |
| Islamic financing and investing assets | 7 | 11,967,581 | 7,524,646 |
| Investment securities | 8 | 698,052 | 1,022,646 |
| Premises and equipment | | 82,938 | 58,683 |
| Other assets | 9 | 427,769 | 216,718 |
| TOTAL ASSETS | | 15,759,101 | 10,917,322 |
| LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Customers' deposits | 10 | 12,860,017 | 7,734,493 |
| Due to banks and other financial institutions | 11 | 440,107 | 884,010 |
| Other liabilities | | 364,292 | 251,554 |
| Total liabilities | | 13,664,416 | 8,870,057 |
| Equity | | | |
| Share capital | | 1,500,000 | 1,500,000 |
| Treasury shares | 12 | (24,425) | - |
| Special reserves | | 42,256 | 42,256 |
| Statutory reserve | | 46,241 | 46,241 |
| Cumulative changes in fair value | | 39,991 | 200,796 |
| Retained earnings | | 490,622 | 257,972 |
| Total equity | | 2,094,685 | 2,047,265 |
| TOTAL LIABILITIES AND EQUITY | | 15,759,101 | 10,917,322 |

These interim condensed consolidated financial statements have been approved by the Board of Directors on 27 July 2008 and signed on their behalf by:



Fadel Al Ali
 Chairman
 27 July 2008



Salaam Al Shaksy
 Chief Executive Officer
 27 July 2008

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

Dubai Bank PJSC and subsidiaries

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2008 (Unaudited)

| | Share capital AED '000 | Treasury shares AED '000 | Statutory reserve AED '000 | Special reserve AED '000 | Cumulative changes in fair value AED '000 | Retained earnings AED '000 | Total AED '000 |
|--|---------------------------|-----------------------------|-------------------------------|-----------------------------|--|-------------------------------|-------------------|
| Balance at 1 January 2007 | 500,000 | - | 15,235 | 21,178 | 3,892 | 99,278 | 639,583 |
| Realised losses on available-for-sale investments reclassified to the income statement on disposal | | | | | 128 | - | 128 |
| Net movement in cumulative changes in fair values recognised directly in equity | | | | | 67,882 | - | 67,882 |
| Total income directly recognised in equity | | | | | 68,010 | - | 68,010 |
| Profit for the period | | | | | - | 81,161 | 81,161 |
| Total income and expense for the period | | | | | 68,010 | 81,161 | 149,171 |
| Share capital issued | 1,000,000 | - | - | - | - | - | 1,000,000 |
| Balance at 30 June 2007 | 1,500,000 | - | 15,235 | 21,178 | 71,902 | 180,439 | 1,788,754 |
| Balance at 1 January 2008 | 1,500,000 | - | 42,256 | 46,241 | 200,796 | 257,972 | 2,047,265 |
| Realized gain on available for sale investments reclassified to the income statement on disposal | | | | | (105,392) | - | (105,392) |
| Net movement in cumulative changes in fair values recognised directly in equity | | | | | (55,413) | - | (55,413) |
| Total income directly recognised in equity | | | | | (160,805) | - | (160,805) |
| Profit for the period | | | | | - | 232,020 | 232,020 |
| Total income and expense for the period | | | | | (160,805) | 232,020 | 71,215 |
| Treasury shares acquired | | (25,000) | | | | | (25,000) |
| Shares vested during the period | | | | | | 630 | 1,260 |
| Shares sold back by employees | | | | | | | (55) |
| Balance at 30 June 2008 | 1,500,000 | (24,425) | 42,256 | 46,241 | 39,991 | 490,622 | 2,094,685 |

Transfers to statutory and special reserves are made at the year end.

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

Dubai Bank PJSC and subsidiaries

INTERIM CONSOLIDATED CASH FLOW STATEMENT

Six months ended 30 June 2008 (Unaudited)

| | Notes | <i>Six months ended 30 June</i> | |
|---|-------|---------------------------------|----------------|
| | | 2008 | 2007 |
| | | AED'000 | AED'000 |
| OPERATING ACTIVITIES | | | |
| Profit for the period | | 232,020 | 81,161 |
| Adjustments for: | | | |
| Depreciation | | 6,026 | 6,571 |
| Provision for impairment | | (4,381) | 530 |
| ESOP shares taken directly to equity | | 1,260 | - |
| Gain on sale of available for sale investments | 4 | (105,392) | (43,891) |
| Operating cash flows before working capital changes | | 129,533 | 44,371 |
| Reserves with UAE Central Bank | | (789,386) | (19,503) |
| Due from banks with maturity greater than 90 days | | 39,795 | (18,830) |
| Islamic financing and investing assets | | (4,438,554) | (4,195,904) |
| Other assets | | (211,051) | (72,531) |
| Due to banks | | (443,903) | 2,014,197 |
| Customers' deposits | | 5,125,524 | 759,680 |
| Other liabilities | | 112,738 | 41,806 |
| Net cash used in operating activities | | (475,304) | (1,446,714) |
| INVESTING ACTIVITIES | | | |
| Purchase of premises and equipment | | (30,281) | (11,998) |
| Purchase of investment securities | | (69,275) | (513,560) |
| Proceeds from sale of premises and equipment | | - | 78 |
| Proceeds from sale of investment securities | | 338,456 | 192,556 |
| Net cash from (used in) investing activities | | 238,900 | (332,924) |
| FINANCING ACTIVITIES | | | |
| Proceeds from issue of rights shares | | - | 1,000,000 |
| Treasury shares – net | | (25,055) | |
| Net cash from financing activities | | (25,055) | 1,000,000 |
| DECREASE IN CASH AND CASH EQUIVALENTS | | (261,459) | (779,638) |
| Cash and cash equivalents at 1 January | | 1,479,473 | 2,663,771 |
| CASH AND CASH EQUIVALENTS AT 30 JUNE | 13 | 1,218,014 | 1,884,133 |
| Operational cash flow from profit and dividends | | | |
| Depositors' share of profit paid | | 109,594 | 101,936 |
| Income from Islamic financing and investing assets received | | 317,543 | 275,803 |
| Dividend received | | 580 | 132 |

The attached notes 1 to 15 form part of these interim condensed consolidated financial statements.

Dubai Bank PJSC and subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2008

1 INCORPORATION AND ACTIVITIES

Dubai Bank PJSC (“Dubai Bank”) was incorporated in 2002 and is registered under the Commercial Companies Law Number 8 of 1984 (as amended) as a Public Joint Stock Company. It was issued a license by the UAE Central Bank on 5 August 2002 and commenced effective operations on 22 September 2002. The address of Dubai Bank’s registered office is P.O. Box 65555, Dubai, United Arab Emirates.

Dubai Banking Group, a private joint stock company incorporated in the Emirate of Dubai, United Arab Emirates, wholly owns Dubai Bank. Dubai Banking Group PJSC is owned 70% by Dubai Financial Group LLC and 30% by Emaar Properties PJSC. The ultimate parent of Dubai Financial Group LLC is Dubai Holding L.L.C.

Dubai Bank’s principal activity is commercial banking which converted into a Shari’a compliant Islamic bank effective 1 January 2007.

In addition to its main office in Dubai, the Bank operates through its branches in the UAE. The accompanying interim condensed consolidated financial statements comprise the activities of Dubai Bank and its subsidiaries, Dubai Tadawul LLC and Al Taqdeer Plan Limited (collectively referred as “the Bank”). Dubai Tadawul LLC is a wholly owned subsidiary of Dubai Bank and is a registered brokerage company in the Emirate of Dubai. Al Taqdeer Plan Limited is a special purpose vehicle incorporated for the employee stock ownership plan.

2 BASIS OF PREPARATION

The interim condensed consolidated financial statements of the Bank are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. These financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Bank’s annual financial statements as at 31 December 2007. In addition, results for six months ended 30 June 2008 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2008.

The accounting policies used in the preparation of the interim condensed consolidated financial statement are consistent with those used in the preparation of the annual financial statement for the year ended 31 December 2007.

Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 30 June 2008. The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group balances and transactions, including unrealised profits, have been eliminated on consolidation.

3 DEFINITIONS

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

Murabaha

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

Ijarah

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

Dubai Bank PJSC and subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2008

3 DEFINITIONS (continued)

Wakala

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

Mudaraba

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

4 GAIN ON SALE OF AVAILABLE FOR SALE INVESTMENTS

During the period the Bank sold its available for sale investments for an amount of AED 338 million (30 June 2007: AED 192 million) and recognised the resulting gain.

5 GENERAL AND ADMINISTRATIVE EXPENSES

| | <i>30 June 2008 AED'000 (Unaudited)</i> | <i>30 June 2007 AED'000 (Unaudited)</i> |
|--------------------------------------|---|---|
| Staff expenses | 92,000 | 51,848 |
| Other employee related expenses | 4,704 | 2,180 |
| Marketing and related costs | 19,734 | 9,810 |
| Premises and related costs | 10,135 | 6,430 |
| Technology support and related costs | 6,892 | 6,480 |
| Depreciation | 6,026 | 6,571 |
| Professional expenses | 4,360 | 3,174 |
| Postage printing and stationery | 3,110 | 1,329 |
| Insurance premium charges | 3,498 | 1,400 |
| Other expenses | 11,479 | 4,150 |
| | <u>161,938</u> | <u>93,372</u> |

6 BALANCES AND DEPOSITS WITH BANKS

These balances carry profit at market rates. Five accounts comprise 83% of the total due from banks at 30 June 2008 (31 December 2007: 73%).

Dubai Bank PJSC and subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2008

7 ISLAMIC FINANCING AND INVESTING ASSETS

| | <i>30 June 2008 AED'000 (Unaudited)</i> | <i>31 December 2007 AED'000 (Audited)</i> |
|---|---|---|
| Commodities murabahat | 9,890,653 | 6,394,925 |
| Vehicles murabahat | 533,799 | 316,065 |
| Total murabahat | <u>10,424,452</u> | <u>6,710,990</u> |
| Ijara | 1,337,084 | 723,307 |
| Islamic covered cards | 245,442 | 134,127 |
| | <u>12,006,978</u> | <u>7,568,424</u> |
| Less: Provisions for impairment | (39,397) | (43,778) |
| Total Islamic financing and investing assets, net | <u><u>11,967,581</u></u> | <u><u>7,524,646</u></u> |

Five parties represent 43% of the total portfolio of Islamic financing and investing assets as at 30 June 2008.

Movements in the provision for impairment are as follows:

| | <i>30 June 2008 AED'000 (Unaudited)</i> | <i>31 December 2007 AED'000 (Audited)</i> |
|--|---|---|
| Balance at 1 January | 43,778 | - |
| Transfer from provision for loans and advances | - | 35,760 |
| Net (reversal)/ charge for the period / year | (4,381) | 8,018 |
| Balance at the end of the period/year | <u><u>39,397</u></u> | <u><u>43,778</u></u> |

At 30 June 2008, the gross amount of Islamic financing and investing assets on which profit is suspended amounted to AED 23,390 thousand (31 December 2007: AED 14,000 thousands). Cumulative unrecognised profit relating to such assets amounted to AED 1,883 thousand (31 December 2007: AED 1,733 thousand).

The fair value of collateral that the Bank holds relating to Islamic financing and investing assets individually determined to be impaired at 30 June 2008 amounted to AED 48 thousand (31 December 2007: AED 108 thousands) The collateral consists of cash deposits held by the Bank.

Dubai Bank PJSC and subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2008

8 INVESTMENT SECURITIES

| | <i>30 June 2008 AED'000 (Unaudited)</i> | <i>31 December 2007 AED'000 (Audited)</i> |
|------------------------------|---|---|
| <i>Available for sale</i> | | |
| Quoted | | |
| Debt securities - Sukuk | 475,399 | 539,205 |
| Equities | 178,845 | 453,437 |
| Mutual funds | 8,614 | 9,455 |
| | <u>662,858</u> | <u>1,002,097</u> |
| Unquoted | | |
| Debt securities - Sukuk | 20,549 | 20,549 |
| Equities | 14,645 | - |
| | <u>35,194</u> | <u>20,549</u> |
| | <u>698,052</u> | <u>1,022,646</u> |
| Analysis of debt securities: | | |
| Fixed rate | 55,111 | 99,923 |
| Floating rate | 440,837 | 459,831 |
| | <u>495,948</u> | <u>559,754</u> |

Unquoted investments amounting to AED 35,194 thousand (31 December 2007: AED 20,549 thousand) are stated at cost as there are no reliable means of estimating their fair value.

Section 90(1) (d) of the Federal Law No. 10 of 1980 has imposed a maximum investment limit whereby the Bank's total investment in the shares and bonds of commercial companies shall not exceed 25% of its capital base. However, the Bank's total net investments in such companies comprise 26% (31 December 2007: 47%) of its capital.

9 OTHER ASSETS

The variance in other assets has mainly arisen from the buy-out of loans of a corporate customer. At the period-end documentary requirements relating to the loans were pending. The loans will be transferred to Islamic financing and investing assets once the documentation requirements are complete.

Other assets have also varied due to timing differences in clearing cheques with the UAE Central bank and holdings of metal inventory.

10 CUSTOMERS' DEPOSITS

| | <i>30 June 2008 AED'000 (Unaudited)</i> | <i>31 December 2007 AED'000 (Audited)</i> |
|------------------|---|---|
| Demand accounts | 4,984,024 | 3,469,041 |
| Savings accounts | 451,940 | 267,367 |
| Deposit accounts | 7,424,053 | 3,998,085 |
| | <u>12,860,017</u> | <u>7,734,493</u> |

Top ten deposits accounts comprise 55% of the total customers' deposit at 30 June 2008 (31 December 2007: 64 %).

Dubai Bank PJSC and subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2008

11 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

These balances carry profit at market rates. Five accounts comprise 92% of the total due to banks at 30 June 2008 (31 December 2007: 84%).

12 TREASURY SHARES

| | <i>30 June 2008 AED'000 (Unaudited)</i> | <i>31 December 2007 AED'000 (Audited)</i> |
|-----------------|---|---|
| Treasury shares | <u>24,425</u> | <u>-</u> |

The Bank has established an Employee Share Ownership Plan ("the Plan") following approval from its shareholder at an Extraordinary General Meeting held on 22 January 2007. The main objective of the Plan is employee retention. The Plan incorporated as a limited liability company namely Al Tagdeer Limited acquired 5 million shares having a face value of AED 50 million for AED 25 million from the Bank's parent entity. The shares are acquired by the Plan through a financing facility provided by the Bank. Under the Plan these shares will be granted to the Bank's employees vesting over a period of three years.

At 1 January 2008 420,057 shares were granted to the employees, out of which 126,017 shares vested during the period and 5,493 shares have been exercised. The Bank has recorded a charge of AED 1,260,170 in the statement of income.

13 CASH AND CASH EQUIVALENTS

| | <i>30 June 2008 AED'000 (Unaudited)</i> | <i>30 June 2007 AED'000 (Audited)</i> |
|---|---|---|
| Cash and cash equivalents comprise the following balance sheet amounts: | | |
| - Cash and balances with UAE Central Bank | 1,596,234 | 466,676 |
| - Due from banks | <u>986,527</u> | <u>2,161,385</u> |
| | 2,582,761 | 2,628,061 |
| Reserves with UAE Central Bank | <u>(1,119,249)</u> | <u>(399,268)</u> |
| Due from banks with maturity greater than 90 days | <u>(245,498)</u> | <u>(344,660)</u> |
| | <u>1,218,014</u> | <u>1,884,133</u> |

Dubai Bank PJSC and subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2008

14 COMMITMENTS AND CONTINGENT LIABILITIES

The Bank has the following contingent liabilities and credit related commitments:

| | <i>30 June 2008 AED'000 (Unaudited)</i> | <i>1 December 2007 AED'000 (Audited)</i> |
|--|---|--|
| <i>Contingent liabilities:</i> | | |
| Letters of credit | 432,386 | 396,435 |
| Guarantees | 1,411,338 | 852,361 |
| Acceptances | 449,085 | 51,399 |
| | <u>2,292,809</u> | <u>1,300,195</u> |
| <i>Commitments:</i> | | |
| Irrevocable commitments to extend credit | <u>3,505,011</u> | <u>3,151,320</u> |
| The Bank has the following non credit related commitments: | | |
| <i>Capital commitments:</i> | | |
| Commitments in respect of premises and equipment purchases | <u>44,064</u> | <u>35,548</u> |
| Commitments in respect of premises | <u>9,830</u> | <u>16,808</u> |

Commitments to extend credit of AED 3.5 billion are expected to be funded by customer deposits and proposed issue of Sukuks which have been approved by the shareholders on 4 December 2007. Concentrated efforts through increased advertisement and promotional campaigns to mobilize deposits are planned. Shareholders funds will be obtained, if necessary.

15 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

The Bank enters into transactions with its shareholder, directors, senior officers and their related concerns in the ordinary course of business at commercial benefit and commission rates. All Islamic financing assets in respect of related parties are performing advances and are free of any provision for possible loan losses.

The significant balances outstanding at 30 June 2008 and 31 December 2007 in respect of related parties included in these financial statements are as follows:

| | <i>30 June 2008 (Unaudited)</i> | | | | |
|--|-------------------------------------|--|---|--|--------------------------|
| | <i>Share holder AED'000</i> | <i>Entity with significant influence over the Bank AED'000</i> | <i>Key management personnel AED'000</i> | <i>Other related parties AED'000</i> | <i>Total AED'000</i> |
| Islamic financing and investing assets | 269,803 | 73,816 | 2,438 | 3,117,962 | 3,464,019 |
| Customers' deposits | 203,976 | 613,522 | 4,876 | 1,678,668 | 2,501,042 |
| Due to banks | - | - | - | 2,470 | 2,470 |
| Commitments | - | 64 | - | 170,636 | 170,700 |

Dubai Bank PJSC and subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2008

15 RELATED PARTY TRANSACTIONS (continued)

31 December 2007 (Audited)

| | Share holder AED'000 | Entity with significant influence over the Bank AED'000 | Key management personnel AED'000 | Other related parties AED'000 | Total AED'000 |
|--|-------------------------|---|---|--|------------------|
| Islamic financing and investing assets | 374,880 | 72,808 | 4,719 | 1,391,172 | 1,843,579 |
| Customers' deposits | 35,872 | 198,282 | 6,127 | 46,671 | 286,952 |
| Due to banks | - | - | - | 201,173 | 201,173 |
| Commitments | - | 64 | - | 314,277 | 314,341 |

Transactions with related parties included in these financial statements are as follows:

30 June 2008 (Unaudited)

| | Share holder AED'000 | Entity with significant influence over the Bank AED'000 | Other related parties AED'000 | Total AED'000 |
|------------------------------|-------------------------|---|--|------------------|
| Profit and other income | 12,525 | 1,636 | 31,695 | 45,856 |
| Depositors' share of profits | 744 | 1,715 | 21,046 | 23,505 |

30 June 2007 (Unaudited)

| | Shareholder AED'000 | Entity with significant influence over the Bank AED'000 | Other related parties AED'000 | Total AED'000 |
|-------------------------------------|------------------------|---|--|------------------|
| Profit and other income | 3,635 | - | 38,458 | 42,093 |
| Depositors' share of profits | 9,095 | 1,612 | 113 | 10,820 |
| General and administrative expenses | - | 1,848 | - | 1,848 |

Compensation of key management personnel is as follows:

| | 30 June 2008 AED'000 (Unaudited) | 30 June 2007 AED'000 (Unaudited) |
|---|---|---|
| Short term employee benefits | 20,803 | 23,350 |
| End of service benefits | 982 | 1,829 |
| Employees' stock ownership | 1,260 | - |
| Total compensation paid to key management personnel | 23,045 | 25,179 |

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF THE DUBAI BANK PJSC

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Dubai Bank PJSC and its subsidiary (the 'Bank'), which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management of the Bank is responsible for the preparation and fair representation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Bank, Federal Law No. 8 of 1984 (as amended) and Federal Law No. 10 of 1980. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as of 31 December 2007 and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other Legal and Regulatory Requirements

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of Federal Law No. 8 of 1984 (as amended), Federal Law No. 10 of 1980 and the articles of association of the Bank; proper books of account have been kept by the Bank and its subsidiary, and the contents of the report of the Board of Directors relating to these consolidated financial statements are in agreement with the books of account. We have obtained all the information and explanations we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the articles of association of the Bank, Federal Law No. 8 of 1984 (as amended) or Federal Law No. 10 of 1980 have occurred during the year which would have had a material effect on the business of the Bank or on its financial position.

Ernst & Young



Signed by
Edward B Quinlan
Partner
Registration No. 93

12 February 2008

Dubai

Dubai Bank PJSC

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

| | <i>Notes</i> | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|--|--------------|-------------------------------|-------------------------------|
| Income from Islamic financing and investing assets | 5 | 533,063 | - |
| Interest income | | - | 279,921 |
| Depositors' share of profits | | (283,262) | - |
| Interest expense | | - | (106,589) |
| | | <u>249,801</u> | <u>173,332</u> |
| | | | |
| Fees, commission and other income | 6 | 65,361 | 74,045 |
| Gain on sale of available for sale investments | | 122,775 | 30,550 |
| Gain on the sale of the credit card business | 7 | - | 53,717 |
| | | <u>188,136</u> | <u>158,312</u> |
| | | | |
| EXPENSES | | | |
| General and administrative expenses | 8 | (219,141) | (198,968) |
| Provisions for impairment | 9 | (8,018) | (27,777) |
| | | <u>(227,159)</u> | <u>(226,745)</u> |
| | | | |
| PROFIT FOR THE YEAR | | <u>210,778</u> | <u>104,899</u> |

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

Dubai Bank PJSC
CONSOLIDATED BALANCE SHEET
 At 31 December 2007

| | <i>Notes</i> | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|---|--------------|-------------------------------|-------------------------------|
| ASSETS | | | |
| Cash and balances with UAE Central Bank | 10 | 1,622,803 | 413,244 |
| Balances and deposits with banks | 11 | 471,826 | 2,956,122 |
| Islamic financing and investing assets | 12 | 7,524,646 | - |
| Loans and advances to customers | 13 | - | 1,505,627 |
| Investment securities | 14 | 1,022,646 | 499,608 |
| Premises and equipment | 15 | 58,683 | 34,890 |
| Other assets | 16 | 216,718 | 149,593 |
| TOTAL ASSETS | | 10,917,322 | 5,559,084 |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES | | | |
| Customers' deposits | 17 | 7,734,493 | 4,478,416 |
| Due to banks and other financial institutions | 18 | 884,010 | 252,150 |
| Other liabilities | 19 | 251,554 | 188,935 |
| TOTAL LIABILITIES | | 8,870,057 | 4,919,501 |
| EQUITY | | | |
| Share capital | 20 | 1,500,000 | 500,000 |
| Special reserves | 20 | 42,256 | 21,178 |
| Statutory reserves | 20 | 46,241 | 15,235 |
| Cumulative changes in fair value | | 200,796 | 3,892 |
| Retained earnings | | 257,972 | 99,278 |
| TOTAL EQUITY | | 2,047,265 | 639,583 |
| TOTAL LIABILITIES AND EQUITY | | 10,917,322 | 5,559,084 |

Approved by the Board of Directors on 12 February 2008 and signed on its behalf by:



Mohamed Ibrahim Al Shaibani
 Chairman
 12 February 2008



Abdul Aziz Al Muhairi
 Chief Executive Officer
 12 February 2008

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

Dubai Bank PJSC

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

| | <i>Notes</i> | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|---|--------------|-------------------------------|-------------------------------|
| OPERATING ACTIVITIES | | | |
| Profit for the year | | 210,778 | 104,899 |
| Adjustment for: | | | |
| Depreciation | 15 | 12,847 | 11,995 |
| Provisions for impairment – net of transfers | 9 | 8,018 | 13,294 |
| Gain on sale of available for sale investments | | (122,775) | (30,550) |
| | | 108,868 | 99,638 |
| Changes in operating assets and liabilities | | | |
| Reserves with UAE Central Bank | | 49,902 | (158,047) |
| Due from banks with maturity greater than 90 days | | (10,134) | 121,237 |
| Islamic financing and investing assets | | (6,027,037) | - |
| Loans and advances to customers | | - | 102,353 |
| Other assets | | (67,125) | (103,849) |
| Due to banks and other financial institutions | | 631,860 | 50,027 |
| Customer deposits | | 3,256,077 | 761,586 |
| Other liabilities | | 62,619 | (120,802) |
| Net cash (used in) / from operating activities | | (1,994,970) | 752,143 |
| INVESTING ACTIVITIES | | | |
| Purchase of premises and equipment | 15 | (36,644) | (11,356) |
| Purchase of investment securities | | (1,231,724) | (541,270) |
| Proceeds from sale of investment securities | | 1,028,365 | 395,981 |
| Disposal of premises and equipment | | 4 | 119 |
| Net cash used in investing activities | | (239,999) | (156,526) |
| FINANCING ACTIVITIES | | | |
| Additional capital | 20 | 1,000,000 | - |
| Net cash from financing activities | | 1,000,000 | - |
| (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS | | (1,234,969) | 595,617 |
| Cash and cash equivalents at 1 January | 21 | 2,714,442 | 2,118,825 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | 21 | 1,479,473 | 2,714,442 |
| Operational cash flows from interest and dividend: | | | |
| Profit paid | | 273,241 | - |
| Interest paid | | - | 101,936 |
| Profit received | | 477,255 | - |
| Interest received | | - | 275,803 |
| Dividend received | | 879 | 166 |

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

Dubai Bank PJSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

| | <i>Share capital AED'000</i> | <i>Special reserve AED '000</i> | <i>Statutory reserve AED'000</i> | <i>Cumulative changes in fair value AED'000</i> | <i>Retained earnings AED'000</i> | <i>Total AED'000</i> |
|--|--------------------------------------|---|--|---|--|--------------------------|
| Balance at 1 January 2006 | 500,000 | 10,688 | 3,039 | 21,742 | 17,065 | 552,534 |
| Realised gain on available for sale investment securities reclassified to income statement | - | - | - | (30,550) | - | (30,550) |
| Net movement in cumulative changes in fair value | - | - | - | 12,700 | - | 12,700 |
| Total income and expense for the year recognised directly in equity | - | - | - | (17,850) | - | (17,850) |
| Profit for the year | - | - | - | - | 104,899 | 104,899 |
| Total income and expenses for the year | - | - | - | (17,850) | 104,899 | 87,049 |
| Transfer to statutory reserve | - | - | 12,196 | - | (12,196) | - |
| Transfer to special reserve | - | 10,490 | - | - | (10,490) | - |
| Balance at 31 December 2006 | 500,000 | 21,178 | 15,235 | 3,892 | 99,278 | 639,583 |
| Realised gain on available for sale investment securities reclassified to income statement | - | - | - | (122,775) | - | (122,775) |
| Net movement in cumulative changes in fair value | - | - | - | 319,679 | - | 319,679 |
| Total income and expense for the year recognised directly in equity | - | - | - | 196,904 | - | 196,904 |
| Profit for the year | - | - | - | - | 210,778 | 210,778 |
| Total income and expenses for the year | - | - | - | 196,904 | 210,778 | 407,682 |
| Additional capital | 1,000,000 | - | - | - | - | 1,000,000 |
| Transfer to statutory reserve | - | - | 31,006 | - | (31,006) | - |
| Transfer to special reserve | - | 21,078 | - | - | (21,078) | - |
| Balance at 31 December 2007 | 1,500,000 | 42,256 | 46,241 | 200,796 | 257,972 | 2,047,265 |

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

Dubai Bank PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

1 INCORPORATION AND ACTIVITIES

Dubai Bank PJSC (“Dubai Bank”) was incorporated in 2002 and is registered under the Commercial Companies Law Number 8 of 1984 (as amended) as a Public Joint Stock Company. It was issued a license by the UAE Central Bank on 5 August 2002 and commenced effective operations on 22 September 2002. The address of Dubai Bank’s registered office is P.O. Box 65555, Dubai, United Arab Emirates.

During 2007 Dubai Financial Group LLC and its nominees owning 70% of the shares of Dubai Bank and Emaar Properties PJSC owning 30% of the shares of Dubai Bank transferred their shares to Dubai Banking Group PJSC and its nominees. Dubai Banking Group is a Private Joint Stock Company incorporated in the Emirate of Dubai, United Arab Emirates. Legal formalities in this respect are in progress.

Dubai Banking Group PJSC is owned 70% by Dubai Financial Group LLC and 30% by Emaar Properties PJSC. The ultimate parent of Dubai Financial Group LLC is Dubai Holding L.L.C.

Dubai Bank’s principal activity is commercial banking which converted into a Shari’a compliant Islamic bank effective 1 January 2007.

In addition to its main office in Dubai, the Bank operates through its branches in the UAE. The accompanying consolidated financial statements comprise the activities of Dubai Bank and its subsidiary, Dubai Tadawul LLC (collectively referred as “the Bank”). Dubai Tadawul LLC is a wholly owned subsidiary of Dubai Bank and is a registered brokerage company in the Emirate of Dubai.

2 BASIS OF PREPARATION

Accounting convention

The consolidated financial statements are prepared under the historical cost convention as modified for the measurement at fair value of investment securities.

The consolidated financial statements are presented in UAE Dirhams which is the functional currency of the Bank and all values are rounded to the nearest thousand UAE Dirhams except when otherwise indicated.

Statement of compliance

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards, applicable requirements of United Arab Emirates laws and Shari’a rules and principles as determined by the Shari’a Supervisory Board of the Bank.

Basis of consolidation

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which control is transferred out of the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group balances and transactions, including unrealised profits, have been eliminated on consolidation. The financial statements of the subsidiary are prepared for the same reporting period as Dubai Bank, using consistent accounting policies.

Changes in accounting policies

The accounting policies are consistent with those used in preparation of the annual financial statements for the year ended 31 December 2006 except that the Bank has adopted the new accounting policies for revenue recognition of Islamic products, Islamic investment and financing assets, and forfeited income in these financial statements.

Adoption of IFRS in current year

As of 1 January 2007, the Bank also adopted and applied the following new IASB standards and interpretations. Adoption of these standards and interpretations did not have any effect on the financial position of the Bank. They did, however, give rise to the additional disclosures being included for the years ended 31 December 2007 and 31 December 2006.

2 BASIS OF PREPARATION (continued)

Changes in accounting policies (continued)

Amendments to IAS 1 – Capital Disclosures

Amendments to IAS 1 Presentation of Financial Statements were issued by the IASB as Capital Disclosures in August 2006. They were required to be applied for periods beginning on or after 1 January 2007. As a result of these amendments disclosure of information enabling evaluation of the bank's objectives, policies and processes for managing capital is made.

IFRS 7 Financial Instruments: Disclosures

IFRS 7 Financial Instruments: Disclosures was issued by the IASB in August 2006, becoming effective for periods beginning on or after 1 January 2007. As a result of the adoption additional disclosures of the significance of financial instruments for the Bank's financial position and performance and information about exposure to risks arising from financial instruments are made.

IFRIC 9 Reassessment of Embedded Derivatives

The Bank has adopted IFRIC Interpretation 9 as of 1 January 2007, which states that the date to assess the existence of an embedded derivative is the date that an entity first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

IFRIC 10 Interim Financial Reporting and Impairment

The Bank has adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of an investment in either an equity instrument or a financial asset carried at cost.

Adoption of these interpretations did not have a significant impact on the Bank's financial statements for the current year.

IASB Standards issued but not adopted

The following IASB Standards have been issued but are not yet mandatory, and have not yet been adopted by the Bank.

IFRS 8 Operating Segments

IFRS 8 Operating Segments was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new standard may require changes in the way the Bank discloses information about its operating segments.

IAS 1 Presentation of Financial Statements

A revised IAS 1 Presentation of Financial Statements was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The application of this standard will result in amendments to the presentation of the financial statements.

3 DEFINITIONS

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

Murabaha

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

Ijarah

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

Wakala

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

Mudaraba

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

4 SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Murabaha

Murabaha income is recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding.

Ijarah

Ijarah income is recognised on a time- apportioned basis over the lease term.

Sukuk

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Others

Profit receivable and payable is recognised for all other profit bearing instruments on an accrual basis using the effective profit rate method based on the actual amounts disbursed. The recognition of profit income is suspended when loans become impaired.

Notional profit is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value.

Fees and commissions receivable or payable are recognised as the services are provided.

Balances and deposits with banks

These are stated at cost less any amounts written off and provision for impairment, if any.

Islamic financing and investing assets

Islamic financing and investing assets consist of Murabaha receivables, investments under Sukuk and Wakala arrangements and Ijarah contracts.

These are stated at amortised cost less any provisions for impairment and deferred income.

Investment securities

These are classified as either held to maturity or available for sale securities.

All investments are initially recognised at cost, being the fair value of the consideration given including directly attributable transaction costs.

Premiums and discounts are amortised using the effective profit rate method and taken to income.

Held to maturity

Investments classified as held to maturity have fixed or determinable payments and fixed maturity and are intended to be held to maturity. They are carried at amortised cost using the effective profit method, less provision for impairment.

Available for sale

After initial recognition, investments which are classified “available for sale” are normally remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes which are not part of an effective hedging relationship, are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as “cumulative changes in fair value” within equity, is included in the income statement for the period.

Fair value

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm’s length transaction.

For investments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts, or similar investment vehicles are based on the last published bid price.

For financial instruments where there is no active market fair value is normally based on acceptable valuation techniques.

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Premises and equipment

Premises and equipment are recorded at cost less accumulated depreciation and any impairment in value.

Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment to their residual values as follows:

- | | |
|--|------------|
| • Furniture, fixtures and office equipment | 2-10 years |
| • Computer hardware and software | 3-5 years |
| • Motor vehicles | 3 years |

Capital work in progress is not depreciated.

Expenditure incurred to replace a component of an item of premises and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of premises and equipment. All other expenditure is recognised in the income statement as the expense is incurred.

An item of premises and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the income statement in the year the asset is derecognised.

The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Deposits

Customers' deposits and due to banks and other financial institutions are carried at cost, less amounts repaid.

Employees' end of service benefits

The Bank provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour Laws.

With respect to its national employees, the Bank makes contributions to the National Pension and Social Security scheme calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

Allocation of profits

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

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Offsetting

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

Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into UAE Dirhams at middle market rates of exchange ruling at the balance sheet date. Any resultant gains and losses are taken to the income statement.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents comprise balances with original maturities of less than 90 days from the date of acquisition including cash and balances with U.A.E Central Bank, deposits with banks and other financial institutions.

Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, an impairment loss is recognised in the income statement.

Impairment is determined as follows:

- (a) for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective profit rate.
- (b) for assets carried at fair value, impairment is the difference between cost and fair value.
- (c) for assets carried at cost, impairment is based on present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

For available for sale equity investments reversals of impairment losses are recorded as increases in cumulative changes in fair value through equity. In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Bank no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

Trade and settlement date accounting

All regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to or received from the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market.

Forfeited income

According to the Shari'a Supervisory Board, the Bank is required to identify any income deemed to be derived from sources not acceptable under Islamic Shari'a regulations and to set aside such amount in a separate account (forfeited income) used to spend on charitable causes.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities' being the premium received. Subsequent to initial recognition, the Bank's liabilities under such guarantees are each measured at the higher of the amortised premium and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement in "provision for impairment". The premium received is recognised in the income statement in 'Net fees and commission income' on straight line basis over the life of the guarantee.

Segment reporting

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

Zakat

The Bank is not required to pay zakat on behalf of its shareholders and zakat is payable directly by them.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant management judgements and estimates

The preparation of the consolidated financial statements requires management to use its judgements and make estimates and assumptions that may affect the reported amount of financial assets and liabilities, revenues, expenses, disclosure of contingent liabilities and the resultant provisions and fair value for the year. Estimates are necessarily based on assumptions about several factors and actual results may differ from reported amount. The most significant judgements and estimates are described below:

Judgements

Classification of investments

Management decides on acquisition of an investment whether it should be classified as held to maturity held for trading or available for sale.

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

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

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

All other investments are classified as available for sale.

Impairment of investments

The Bank treats investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the Bank evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Estimates

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include consideration of liquidity and model inputs such as correlation and volatility for longer dated instruments.

Impairment losses on Islamic financing and investing assets

The Bank reviews its Islamic financing and investing assets on a quarterly basis to assess whether a provision for impairment should be recorded in the income statement. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on Islamic financing and investing assets

In addition to specific provisions against individually significant Islamic financing and investing assets, the Bank also makes a collective impairment provision against such assets which although not specifically identified as requiring a specific provision have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grading of the asset since it was acquired. The internal gradings take into consideration factors such as any deterioration in country risk, industry, technological obsolescence as well as identified structural weaknesses or deterioration in cash flows. The amount of the provision is based on the historical loss pattern for assets within each grade and is adjusted to reflect current economic changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**Significant management judgements and estimates (continued)****Estimates (continued)***Valuation of unquoted equity investments*

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same ;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. The Bank calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data. Management believe that the fair value of these investments is not materially different from their carrying values.

5 INCOME FROM ISLAMIC FINANCING AND INVESTING ASSETS

| | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|-----------------------|-------------------------------|-------------------------------|
| Commodities murabahat | 426,343 | - |
| Vehicles murabahat | 18,157 | - |
| Ijara | 25,751 | - |
| Covered cards | 935 | - |
| Wakalat | 23,894 | - |
| Others | 37,983 | - |
| | 533,063 | - |

6 FEE, COMMISSION AND OTHER INCOME

| | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|-----------------------------|-------------------------------|-------------------------------|
| Fees and commission income | 43,227 | 64,075 |
| Foreign exchange gains, net | 15,011 | 9,970 |
| Others | 7,123 | - |
| | 65,361 | 74,045 |

Dubai Bank PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

7 SALE OF NON-COMPLIANT ASSETS

In 2006, as part of the conversion process of the Bank to a Shari'a compliant Islamic Bank, the Bank sold non compliant assets as follows:

- A group of non-compliant assets that were not convertible or disposable at the time of conversion to an Islamic Bank were sold to Dubai Financial Group LLC under a repo arrangement. Accordingly, the sale did not meet the criteria for asset derecognition.

Such assets were included in the respective asset groups as follows:

| | <i>2006</i> <i>AED'000</i> |
|---------------------------------|-------------------------------|
| Loans and advances to customers | 164,927 |
| Investment securities | 141,096 |
| Balances and deposits with bank | 102,048 |

In 2007 these assets were sold to Dubai Banking Group under Murabaha financing and the assets have been de-recognised. The Murabaha facility provided in this respect amounts to AED 216,607 thousand and is included in Commodities Murabahat as disclosed in Note 12.

- The conventional credit card business was also sold to Dubai First LLC in 2006. The gain resulting from the sale of AED 53,717 thousand was included in the income statement.

8 GENERAL AND ADMINISTRATIVE EXPENSES

| | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|--------------------------------------|-------------------------------|-------------------------------|
| Staff expenses | 132,363 | 101,823 |
| Premises and related costs | 14,242 | 8,726 |
| Technology support and related costs | 6,540 | 5,124 |
| Depreciation (note 15) | 12,847 | 11,995 |
| Others | 53,149 | 71,300 |
| | <u>219,141</u> | <u>198,968</u> |

9 PROVISIONS FOR IMPAIRMENT

| | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|--|-------------------------------|-------------------------------|
| Islamic financing and investing assets (note 12) | 8,018 | - |
| Loans and advance (note 13) | - | 27,777 |
| | <u>8,018</u> | <u>27,777</u> |

Dubai Bank PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

10 CASH AND BALANCES WITH UAE CENTRAL BANK

| | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|---------------------------------|-------------------------------|-------------------------------|
| Cash on hand | 48,406 | 33,479 |
| Balances with UAE Central Bank: | | |
| Current account | 1,244,534 | - |
| Cash reserve requirements | 329,863 | 379,765 |
| | <u>1,622,803</u> | <u>413,244</u> |

The reserve requirements, which are kept in UAE Dirhams and US Dollars, are determined in accordance with the UAE Central Bank directives and cannot be withdrawn without the UAE Central Bank's approval.

11 BALANCES AND DEPOSITS WITH BANKS

| | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|-----------------------|-------------------------------|-------------------------------|
| Current accounts | 36,533 | 50,671 |
| Short term placements | - | 2,630,292 |
| Loans and advances | - | 275,159 |
| Interbank Wakalat | 150,000 | - |
| Interbank Murabahat | 285,293 | - |
| | <u>471,826</u> | <u>2,956,122</u> |

Five bank accounts comprise 73% of the total balances and deposits with banks at 31 December 2007 (2006: 92%).

12 ISLAMIC FINANCING AND INVESTING ASSETS

| | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|---------------------------------|-------------------------------|-------------------------------|
| Commodities murabahat | 6,394,925 | - |
| Vehicles murabahat | 316,065 | - |
| | <u>6,710,990</u> | <u>-</u> |
| Total credit | 6,710,990 | - |
| Ijara | 723,307 | - |
| Islamic credit cards | 134,127 | - |
| | <u>7,568,424</u> | <u>-</u> |
| Less: Provisions for impairment | (43,778) | - |
| | <u>7,524,646</u> | <u>-</u> |

Islamic financing and investing assets by geographical areas are as follows:

| | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|------------------------|-------------------------------|-------------------------------|
| Within U.A.E. | 6,513,147 | - |
| Middle East except UAE | 550,109 | - |
| Others | 461,390 | - |
| | <u>7,524,646</u> | <u>-</u> |

Dubai Bank PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

12 ISLAMIC FINANCING AND INVESTING ASSETS (continued)

Islamic financing and investing assets by economic sector are as follows:

| | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|----------------------------------|-------------------------------|-------------------------------|
| Trade and manufacturing | 1,236,850 | - |
| Banks and financial institutions | 21,264 | - |
| Government | 1,288,548 | - |
| Construction and real estate | 1,029,171 | - |
| Personal financing | 1,907,603 | - |
| Others | 2,041,210 | - |
| | <u>7,524,646</u> | <u>-</u> |

Five parties represent 38% of the total portfolio of Islamic financing and investing assets as at 31 December 2007.

Movements in the provision for impairment are as follows:

| | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|--|-------------------------------|-------------------------------|
| Balance at 1 January | - | - |
| Transfer from provision for loans and advances (note 13) | 35,760 | - |
| Net charge for the period | 8,018 | - |
| | <u>43,778</u> | <u>-</u> |

At 31 December 2007, the gross amount of Islamic financing and investing assets on which profit is suspended amounted to AED 14,000 thousand. Cumulative unrecognised profit relating to such assets amounted to AED 1,733 thousand (2006: AED 434 thousand).

The fair value of collateral that the Bank holds relating to Islamic financing and investing assets individually determined to be impaired at 31 December 2007 amounted to AED 108 thousand (2006: 290) The collateral consists of cash deposits held by the Group.

13 LOANS AND ADVANCES TO CUSTOMERS

| | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|---|-------------------------------|-------------------------------|
| Corporate loans | - | 917,648 |
| Consumer loans | - | 623,739 |
| Others | - | - |
| | <u>-</u> | <u>-</u> |
| Gross amount of loans and advances | - | 1,541,387 |
| Less: Provisions for impairment of loans and advances | - | (35,760) |
| | <u>-</u> | <u>-</u> |
| Net amount of loans and advances | <u>-</u> | <u>1,505,627</u> |

Loans and advances by geographical areas are as follows:

| | | |
|-------------------------|----------|------------------|
| Within UAE | - | 1,413,237 |
| Middle East, except UAE | - | 20,279 |
| Others | - | 72,111 |
| | <u>-</u> | <u>1,505,627</u> |

Dubai Bank PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

13 LOANS AND ADVANCES TO CUSTOMERS (continued)

| | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|--|-------------------------------|-------------------------------|
| Loans and advances by economic sector were as follows: | | |
| Trade and manufacturing | - | 486,307 |
| Banks and financial institutions | - | 34,901 |
| Construction and real estate | - | 119,172 |
| Personal financing | - | 640,470 |
| Others | - | 224,777 |
| | <u>-</u> | <u>1,505,627</u> |

Loans and advances in the balance sheet are stated net of profit in suspense and provisions. The movement in provisions during the year is as follows:

| | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|--|-------------------------------|-------------------------------|
| Balance at 1 January | 35,760 | 22,466 |
| Provided for the year | - | 29,866 |
| Released during the year | - | (2,089) |
| | <u>-</u> | <u>-</u> |
| Charged to the income statement, net | - | 27,777 |
| Written off during the year | - | - |
| Transfer to provision for Islamic financing and investing assets (note 12) | (35,760) | - |
| Transfer on sale of credit card business | - | (14,483) |
| | <u>-</u> | <u>(14,483)</u> |
| Balance at 31 December | <u>-</u> | <u>35,760</u> |

As a result of the conversion of all loans and advances to Islamic financing and investing assets, the provision was transferred to Islamic financing and investing assets.

At 31 December 2006, the gross amount of loans and advances on which interest was suspended amounted to AED 27,916 thousand.

Dubai Bank PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

14 INVESTMENT SECURITIES

| | 2007 AED'000 | 2006 AED'000 |
|---|------------------|-----------------|
| <i>Held to maturity – Quoted</i> | | |
| Government bonds | - | 60,000 |
| <i>Available for sale</i> | | |
| <i>Quoted</i> | | |
| Debt securities - Sukuk | 539,205 | 202,037 |
| Equities | 453,437 | 129,886 |
| Mutual funds | 9,455 | 21,876 |
| | <u>1,002,097</u> | <u>353,799</u> |
| <i>Unquoted</i> | | |
| Debt securities - Sukuk | 20,549 | 18,136 |
| Equities | - | 67,673 |
| | <u>20,549</u> | <u>85,809</u> |
| | <u>1,022,646</u> | <u>499,608</u> |
| Analysis of debt securities including Government bonds: | | |
| Fixed rate | 99,923 | 160,750 |
| Floating rate | 459,831 | 119,422 |
| | <u>559,754</u> | <u>280,172</u> |

Unquoted investments amounting to AED 20,549 thousand (2006: AED 85,809 thousand) are stated at cost as there are no reliable means of estimating the fair value. During the year, the Bank sold certain unquoted available for sale equities and held to maturity investment to its parent entity at their original cost. Please refer Note 23 for details.

Section 90(1) (d) of the Federal Law No. 10 of 1980 has imposed a maximum investment limit whereby the Bank's total investment in the shares and bonds of commercial companies shall not exceed 25% of its capital base. However, the Bank's total net investments in such companies comprise 47% (2006: 42%) of its capital.

15 PREMISES AND EQUIPMENT

| | <i>Furniture, fixtures and office equipment AED'000</i> | <i>Computer hardware and software AED'000</i> | <i>Motor vehicles AED'000</i> | <i>Capital work-in-progress AED'000</i> | <i>Total AED'000</i> |
|---------------------------|---|---|---------------------------------------|---|--------------------------|
| Cost: | | | | | |
| At 1 January 2007 | 25,498 | 40,575 | 371 | 7,783 | 74,227 |
| Additions | 1,807 | 2,374 | 88 | 32,375 | 36,644 |
| Transfers | 3,394 | 1,852 | - | (5,246) | - |
| Disposals | (13) | (8) | (79) | - | (100) |
| At 31 December 2007 | <u>30,686</u> | <u>44,793</u> | <u>380</u> | <u>34,912</u> | <u>110,771</u> |
| Accumulated depreciation: | | | | | |
| At 1 January 2007 | 11,919 | 27,284 | 134 | - | 39,337 |
| Charge for the year | 4,981 | 7,814 | 52 | - | 12,847 |
| Relating to disposals | (11) | (6) | (79) | - | (96) |
| At 31 December 2007 | <u>16,889</u> | <u>35,092</u> | <u>107</u> | <u>-</u> | <u>52,088</u> |
| Net book value: | | | | | |
| At 31 December 2007 | <u>13,797</u> | <u>9,701</u> | <u>273</u> | <u>34,912</u> | <u>58,683</u> |

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15 PREMISES AND EQUIPMENT (continued)

| | <i>Furniture, fixtures and office equipment AED'000</i> | <i>Computer hardware and software AED'000</i> | <i>Motor vehicles AED'000</i> | <i>Capital work-in-progress AED'000</i> | <i>Total AED'000</i> |
|---------------------------|---|---|---------------------------------------|---|--------------------------|
| Cost: | | | | | |
| At 1 January 2006 | 21,434 | 37,995 | 329 | 3,323 | 63,081 |
| Additions | 1,098 | 1,408 | 252 | 8,598 | 11,356 |
| Transfers | 2,966 | 1,172 | - | (4,138) | - |
| Disposals | - | - | (210) | - | (210) |
| At 31 December 2006 | <u>25,498</u> | <u>40,575</u> | <u>371</u> | <u>7,783</u> | <u>74,227</u> |
| Accumulated depreciation: | | | | | |
| At 1 January 2006 | 7,917 | 19,337 | 179 | - | 27,433 |
| Charge for the year | 4,002 | 7,947 | 46 | - | 11,995 |
| Relating to disposals | - | - | (91) | - | (91) |
| At 31 December 2006 | <u>11,919</u> | <u>27,284</u> | <u>134</u> | <u>-</u> | <u>39,337</u> |
| Net book value: | | | | | |
| At 31 December 2006 | <u><u>13,579</u></u> | <u><u>13,291</u></u> | <u><u>237</u></u> | <u><u>7,783</u></u> | <u><u>34,890</u></u> |

16 OTHER ASSETS

| | <i>2007 AED'000</i> | <i>2006 AED'000</i> |
|-------------------------------|-------------------------|-------------------------|
| Profit receivable | 75,471 | - |
| Interest receivable | - | 19,663 |
| Receivable from a third party | 36,035 | 34,894 |
| Receivable on sale of shares | 22,017 | 16,385 |
| Metal inventory | 24,965 | - |
| Sundry debtors | 20,755 | 14,076 |
| Prepayments | 14,135 | 23,007 |
| Others | 23,340 | 41,568 |
| | <u>216,718</u> | <u>149,593</u> |

17 CUSTOMERS' DEPOSITS

| | <i>2007 AED'000</i> | <i>2006 AED'000</i> |
|-------------------|-------------------------|-------------------------|
| a) By type | | |
| Demand accounts | 3,469,041 | 1,091,966 |
| Savings accounts | 267,367 | 196,048 |
| Deposit accounts | 3,998,085 | 3,190,402 |
| | <u>7,734,493</u> | <u>4,478,416</u> |

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17 CUSTOMERS' DEPOSITS (continued)

| | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|------------------------------|-------------------------------|-------------------------------|
| b) By maturity | | |
| Demand deposits | 3,736,408 | 1,288,014 |
| Deposits due within 3 months | 3,443,574 | 3,137,436 |
| Deposits due within 6 months | 526,926 | 37,221 |
| Deposits due within 1 year | 27,585 | 15,745 |
| | <u>7,734,493</u> | <u>4,478,416</u> |
| b) By currency | | |
| UAE Dirham | 7,361,692 | 3,914,674 |
| US Dollar | 259,123 | 449,686 |
| Others | 113,678 | 114,056 |
| | <u>7,734,493</u> | <u>4,478,416</u> |

18 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

| | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|-----------------------|-------------------------------|-------------------------------|
| Current accounts | 155,029 | 27,055 |
| Short term borrowings | - | 225,095 |
| Interbank wakalat | 581,779 | - |
| Interbank murabahat | 147,202 | - |
| | <u>884,010</u> | <u>252,150</u> |

Five accounts comprise 84% of the total due to banks at 31 December 2007 (2006: 96%).

19 OTHER LIABILITIES

| | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|--|-------------------------------|-------------------------------|
| Profit payable | 24,455 | - |
| Interest payable | - | 14,434 |
| Staff related accruals | 32,778 | 23,549 |
| Payables towards metal purchases | 61,000 | - |
| Accrued expenses | 25,076 | 31,635 |
| Refund payable towards initial public offering collection of a non UAE entity | 7,719 | 8,233 |
| Payables for Al Muhafez fund | 8,108 | 23,848 |
| Manager's cheques | 55,625 | 30,195 |
| Fund transfer account | 1,806 | 26,976 |
| UAE switch account | 6,053 | 8,170 |
| Due to VISA | 2,700 | 5,219 |
| Others | 26,234 | 16,676 |
| | <u>251,554</u> | <u>188,935</u> |

Al Muhafez Fund

Al Muhafez Fund has been liquidated in 2007 and the balance represents amounts payable to the beneficiaries of the fund.

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20 SHARE CAPITAL AND RESERVES

Share capital

The authorised, issued and fully paid share capital of the Bank comprises 150,000,000 shares (2006: 50,000,000) of AED 10 each.

During the year, an additional 100,000,000 shares of AED 10 each were issued at par value to the existing shareholders in their respective shareholding ratio.

Special reserve

In accordance with its Articles of Association and Article 82 of Union Law no. 10 of 1980, the Bank allocates 10% of the annual net profit to a special reserve until such reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

Statutory reserve

In accordance with Article 192 of the Commercial Companies Law Number 8 of 1984 (as amended) and the Articles of Association of the Bank, at least 10% of the profit for the year must be transferred to statutory reserve. The Bank may resolve to discontinue such transfers when the reserve equals 50% of the paid up share capital. For 2007, the Bank opted to transfer 10% of the profit for the year and opening retained earnings to accelerate the build up of the statutory reserve.

21 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following balance sheet amounts:

| | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|---|-------------------------------|-------------------------------|
| Cash and balances with UAE Central Bank | 1,622,803 | 413,244 |
| Balances and deposits with banks | 471,826 | 2,956,122 |
| | 2,094,629 | 3,369,366 |
| Less: | | |
| Reserves with UAE Central Bank | (329,863) | (379,765) |
| Due from banks with maturity greater than 90 days | (285,293) | (275,159) |
| | 1,479,473 | 2,714,442 |

22 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

Credit-related commitments include commitments to extend credit, letters of credit, guarantees and acceptances, which are designed to meet the requirements of the Bank's customers.

Guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. Guarantees and letters of credit carry the same credit risk as other financing assets.

Commitments to extend credit represent contractual commitments to provide Islamic financing. Commitments generally have fixed expiration dates, or other termination clauses, and normally require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

22 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The Bank has the following credit related commitments:

| | 2007 AED'000 | 2006 AED'000 |
|--|------------------|-----------------|
| <i>Contingent liabilities:</i> | | |
| Letters of credit | 396,435 | 219,747 |
| Guarantees | 852,361 | 571,961 |
| Acceptances | 51,399 | 68,127 |
| | <u>1,300,195</u> | <u>859,835</u> |
| <i>Commitments:</i> | | |
| Irrevocable commitments to extend credit | 3,151,320 | 350,048 |
| Commitments in respect of premises and equipment purchases | 32,548 | 419 |
| Commitments in respect of operating lease | 16,808 | 7,284 |

Commitment to extend credit of AED 3.2 billion, are expected to be funded by customer deposits and proposed issue of Sukuks which have been approved by the shareholders on 4 December 2007. Concentrated efforts through increased advertisement and promotional campaigns to mobilize deposits are planned. Shareholders funds will be obtained, if necessary.

23 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

The Bank enters into transactions with its shareholders, directors, senior officers and their related concerns in the ordinary course of business at commercial profit and commission rates. All Islamic financing assets (loans and advances) to related parties are performing advances and are free of any provision for possible loan losses.

The significant balances outstanding at 31 December 2007 in respect of related parties included in these financial statements are as follows:

| | 2007 | | | | |
|--|-------------------|---|---|--|------------------|
| | Parent AED'000 | Entity with significant influence over the Bank AED'000 | Key management personnel AED'000 | Other related parties AED'000 | Total AED'000 |
| Islamic financing and investing assets | 374,880 | 72,808 | 4,719 | 1,391,172 | 1,843,579 |
| Customers' deposits | 35,872 | 198,282 | 6,127 | 46,671 | 286,952 |
| Due to banks | - | - | - | 201,173 | 201,173 |
| Commitments | - | 64 | - | 314,277 | 314,341 |
| | 2006 | | | | |
| | Parent AED'000 | Entity with significant influence over the Bank AED'000 | Key management personnel AED'000 | Other related parties AED'000 | Total AED'000 |
| Loans and advances | - | - | 853 | 91,825 | 92,678 |
| Customers' deposits | - | 99,817 | 6,493 | 78,279 | 184,589 |
| Due to banks | - | - | - | 107,554 | 107,554 |
| Commitments | - | 64 | - | 260,000 | 260,064 |

Dubai Bank PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

23 RELATED PARTY TRANSACTIONS (continued)

Transactions with related parties included in these financial statements are as follows:

| | <i>Parent</i> <i>AED'000</i> | <i>Entity with significant influence over the Bank</i> <i>AED'000</i> | <i>Other related parties</i> <i>AED'000</i> | <i>Total</i> <i>AED'000</i> |
|-------------------------------------|---------------------------------|--|--|--------------------------------|
| Profit and other income | 7,124 | - | 38,458 | 45,582 |
| Deposits' share of profits | (9,095) | (1,612) | (113) | (10,820) |
| General and administrative expenses | - | (1,848) | - | (1,848) |

During the year, the Bank sold certain available for sale investments to its parent entity at their original cost of AED 168,373 thousands which had a fair market value of AED 169,486 thousands.

| | 2006 | | | |
|--------------------------------------|---------------------------------|--|--|--------------------------------|
| | <i>Parent</i> <i>AED'000</i> | <i>Entity with significant influence over the Bank</i> <i>AED'000</i> | <i>Other related parties</i> <i>AED'000</i> | <i>Total</i> <i>AED'000</i> |
| Interest and other income | - | - | 3,671 | 3,671 |
| Interest expenses | - | (10,568) | (1,240) | (11,808) |
| General and administrative expenses | - | (11,643) | - | (11,643) |
| Gain on sale of credit card business | - | - | (53,717) | (53,717) |

Compensation of key management personnel is as follows:

| | 2007 <i>AED'000</i> | 2006 <i>AED'000</i> |
|---|------------------------|------------------------|
| Short-term employee benefits | 39,685 | 23,350 |
| Post employment benefits | 1,161 | 1,829 |
| Total compensation paid to key management personnel | <u>40,846</u> | <u>25,179</u> |

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24 SEGMENTAL INFORMATION

Primary segment information

For management purposes the Bank is organised into two major business segments:

Commercial banking - principally handling Islamic financing and other credit facilities and deposit and current accounts for corporate and institutional customers, handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities, funds transfer facilities and safe house facilities;

Treasury and capital markets - principally providing treasury services, as well as the management of the Bank's funding operations and Investment activities

These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Profit is charged / credited to business segments based on a pool rate which approximates the marginal cost of funds.

Segmental information for the years 2007 and 2006 is as follows:

| | 2007 | | | 2006 | | |
|--------------------------|---|---|--------------------------------|---|---|--------------------------------|
| | <i>Commercial banking</i> <i>AED'000</i> | <i>Treasury and capital markets</i> <i>AED'000</i> | <i>Total</i> <i>AED'000</i> | <i>Commercial banking</i> <i>AED'000</i> | <i>Treasury and capital markets</i> <i>AED'000</i> | <i>Total</i> <i>AED'000</i> |
| Gross income | <u>502,094</u> | <u>219,105</u> | <u>721,199</u> | <u>352,441</u> | <u>85,792</u> | <u>438,233</u> |
| Profit for the year | <u>86,801</u> | <u>123,977</u> | <u>210,778</u> | <u>88,853</u> | <u>16,046</u> | <u>104,899</u> |
| Segment assets | <u>9,508,049</u> | <u>1,409,273</u> | <u>10,917,322</u> | <u>2,416,004</u> | <u>3,143,080</u> | <u>5,559,084</u> |
| Segment liabilities | <u>8,015,957</u> | <u>854,100</u> | <u>8,870,057</u> | <u>4,731,603</u> | <u>187,898</u> | <u>4,919,501</u> |
| Capital expenditure | <u>36,620</u> | <u>24</u> | <u>36,644</u> | <u>11,256</u> | <u>100</u> | <u>11,356</u> |
| Provision for impairment | <u>8,018</u> | <u>-</u> | <u>8,018</u> | <u>27,777</u> | <u>-</u> | <u>27,777</u> |
| Depreciation expense | <u>11,664</u> | <u>1,183</u> | <u>12,847</u> | <u>10,265</u> | <u>1,730</u> | <u>11,995</u> |

Secondary segment information

The Bank operates in only one geographic area, namely the United Arab Emirates. Accordingly, no geographical segmental information is given.

25 RISK MANAGEMENT

Introduction

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

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

The major risks to which the Bank is exposed in conducting its business and operations, and the means and organisational structure it employs in seeking to manage them strategically in building shareholder value, are outlined below.

Risk management structure

Executive Management is responsible for implementing the Bank's Risk Strategy/Appetite and Policy guidelines set by the Board Credit and Market Risk Committee (BC&MRC), including the identification and evaluation on a continuous basis of all significant risks to the business and the design and implementation of appropriate internal controls to minimise them. This is done through the following senior management committees.

The Bank Audit Committee is responsible to the Board for ensuring that the Bank maintains an effective system of financial, accounting and risk management controls and for monitoring compliance with the requirements of the regulatory authorities in the various countries in which the Bank operates.

The Bank Shari'a Board is responsible to review the operational, financing and investing activities of the Bank ensuring their alignment with the Quran and the Sunna'h. Being a supervisory Board they are also required to audit the business activities undertaken and present an independent report to the shareholders. Fatwas and ongoing directives issued by the Shari'a Board are co-ordinated and implemented through an internal Shari'a compliance department. The Department seek guidance from the Shari'a Board for the implementation of directives.

The Board Credit and Market Risk Committee (BC&MRC) is responsible for the continual review and approval of the Bank's Risk Policies and Medium Term and Annual Risk Strategy/Appetite, within which business strategy, objectives and targets are formulated. The Committee reviews the Bank's Risk Profile to ensure that it is within the Bank's Risk Policies and Appetite parameters. It delegates authority to senior management to conduct day-to-day business within the prescribed policy and strategy parameters, whilst ensuring that processes and controls are adequate to manage the Bank's Risk Policies and Strategy.

The Investment and Credit Committee (ICC) is responsible for credit decisions at the higher levels of the Bank's financing portfolio, setting country and other high level group limits, dealing with impaired assets and general credit policy matters. ICC is also responsible for name clearance and review of all investment banking related deals from an operational, fiduciary and reputation risk perspective, in line with the risk/reward guidelines approved by the BC&MRC.

The Asset and Liability and Risk Management Committee (ALRMC) is chiefly responsible for defining long-term strategic plans and short-term tactical initiatives for directing asset and liability allocation prudently for the achievement of the Bank's strategic goals. ALRMC monitors the Bank's liquidity and market risks and the Bank's risk profile in the context of economic developments and market fluctuations, to ensure that the Bank's ongoing activities are compatible with the risk/reward guidelines approved by the BC&MRC.

The Risk Management Group (RMG) is a senior management group having an overall responsibility for centralised credit policy and procedure formulation, country risk and counterparty analysis, approval/review and exposure reporting, control and risk-related regulatory compliance, remedial assets management and the provision of analytical resources to senior management. It is also responsible for identifying market and operational risks arising from the Bank's activities, recommending to the relevant management committees appropriate policies and procedures for managing exposure to such risks and establishing the systems necessary to implement effective controls.

25 RISK MANAGEMENT (continued)

Risk management structure (continued)

The Shari'a Compliance Department is responsible to ensure compliance with directives issued by the Shari'a Board including changes to lending contracts, products parameters, profit distribution and others.

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss. The method makes use of the historical experience, adjusted to reflect the economic environment based on statistical models.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Risk mitigation

The Risk Management Group ("RMG") dynamically evolves policies and procedures to meet the business needs.

All corporate credit proposals are carefully reviewed to underwrite only the cherry picked, diversified risk assets portfolio with appropriate and adequate risk mitigants at optimum pricing. The retail business being criteria driven is underwritten through judicious retail credit risk policies. The Bank has a balanced risk appetite and its credit granting criteria emphasizes undertaking calculated risks with adequate mitigating mechanisms to safeguard the Bank's asset quality. Credits are independently assessed by RMG through pre-fact credit and investment due diligence process and are implemented through robust credit administration procedures. The portfolio is monitored on a regular basis to identify and mitigate asset-quality weaknesses, if any.

The Bank has implemented a risk management system that will allow close monitoring of all assets and liabilities in terms of market and liquidity risk.

For managing liquidity risk, the Bank takes the following precautions:

- a) Substantial International Murabaha and Wakala lines are obtained from both Islamic and conventional banks.
- b) The Bank maintains a highly liquid portfolio of money market equivalent assets to the extent of 20% to 25% of total assets.
- c) All long term investments are subject to strict investment policy limits to ensure that investments are not concentrated, mostly rated and highly liquid.

Excessive risk concentration

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

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

25 RISK MANAGEMENT (continued)**CREDIT RISK**

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Bank. Such risk arises from financing, trade finance, treasury and other activities undertaken by the Bank. Credit risk is actively monitored in accordance with the credit and other related policies which clearly defined delegated financing authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location. For details of composition of Islamic financing and investing assets portfolio refer note 12.

The Bank's portfolio and credit exposures are managed in accordance with the Bank's Credit Policy, which applies as qualitative and quantitative guidelines, with particular emphasis on avoiding undue concentrations or aggregations of risk. The Credit Risk section of the Risk Management Group (RMG) coordinates all technology development related to credit risk management and provides senior management with consolidated information on Bank exposures to counterparties, countries, industries, etc.

The first level of protection against undue credit risk is through the Bank's country, industry and other risk threshold limits, together with customer and customer group credit limits, set by the BC&MRC, the ICC and the ALMRC. Credit exposure to individual customers or customer groups is then controlled through a tiered hierarchy of delegated approval authorities based on the risk rating of the customer under Bank's internal credit rating system. Where unsecured facilities sought are considered to be beyond prudential limits, Bank policies require collateral to mitigate the credit risk in the form of cash, securities, legal charges over the customer's assets or third-party guarantees.

QUANTITATIVE INFORMATION*Maximum exposure to credit risk without taking account of any collateral and other credit enhancements*

The table below shows the maximum exposure to credit risk for the components of the balance sheet:

| | <i>Notes</i> | Gross maximum exposure 2007 AED | Gross maximum exposure 2006 AED '000 |
|--|--------------|--|---|
| Balances with UAE Central bank | 10 | 1,574,397 | 379,765 |
| Balances and deposits with banks | | 471,826 | 2,956,122 |
| Investment securities | | 559,754 | 280,173 |
| Islamic financing and investing assets | | 7,524,646 | 1,505,627 |
| Other assets | | 177,618 | 126,586 |
| Total | | 10,308,241 | 5,248,273 |
| Contingent liabilities | | 1,300,195 | 859,835 |
| Commitments | | 3,200,676 | 357,751 |
| Total | | 4,500,871 | 1,217,586 |
| Total credit risk exposure | | 14,809,112 | 6,465,859 |

Where financial instruments are recorded at fair value the amounts shown above represent the credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

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25 RISK MANAGEMENT (continued)

QUANTITATIVE INFORMATION (continued)

The Bank's financial positions, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

| | 2007 | | | 2006 | | |
|------------------------|---------------------------|---|--|---------------------------|---|--|
| | <i>Assets AED'000</i> | <i>Liabilities and equity items AED'000</i> | <i>Credit commitments and contingent items AED'000</i> | <i>Assets AED'000</i> | <i>Liabilities and equity items AED'000</i> | <i>Credit commitments and contingent items AED'000</i> |
| Within UAE | 9,058,899 | 10,544,422 | 4,471,581 | 4,856,152 | 5,389,022 | 1,200,977 |
| Middle East except UAE | 1,015,277 | 189,297 | 17,672 | 129,558 | 21,232 | - |
| Others | 696,957 | 183,603 | 11,618 | 481,998 | 148,830 | 16,609 |
| Total | 10,771,133 | 10,917,322 | 4,500,871 | 5,467,708 | 5,559,084 | 1,217,586 |

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

| | 2007 | | 2006 | |
|----------------------------------|---|---|---|---|
| | <i>Gross maximum exposure AED'000</i> | <i>Net maximum exposure AED'000</i> | <i>Gross maximum exposure AED'000</i> | <i>Net maximum exposure AED'000</i> |
| Trade and manufacturing | 2,332,515 | 2,021,240 | 1,051,611 | 1,001,859 |
| Banks and financial institutions | 2,185,718 | 2,185,718 | 3,603,109 | 3,603,109 |
| Government | 2,480,696 | 2,480,696 | 88,564 | 80,064 |
| Construction and real estate | 1,771,086 | 1,399,082 | 374,045 | 366,967 |
| Personal financing | 1,959,471 | 1,736,799 | 640,470 | 549,140 |
| Other | 4,079,626 | 4,045,852 | 708,060 | 706,654 |
| Total | 14,809,112 | 13,869,387 | 6,465,859 | 6,307,793 |

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of financial asset, based on the Bank's credit rating system.

25 RISK MANAGEMENT (continued)**QUANTITATIVE INFORMATION (continued)****Definition of internal rating process**

It is the bank policy to maintain accurate and consistent risk rating across the credit portfolio. This facilitates focused management of the applicable risks and comparison of credit exposure across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide main inputs for the measurement of counterparty risk. Bank's existing corporate credit policy has a five point grading system which is as follows:

| Rating | Considered as | Represents |
|---------|-----------------------------------|---|
| Grade 1 | Standard grade | Standard assets, further divided into categories A to E with A being sovereign exposures and E being small and medium sized enterprise. |
| Grade 2 | Standard grade | Specially mentioned ,watch list assets requiring special monitoring |
| Grade 3 | Sub-standard grade | Sub-standard assets with continued weakness such as business losses for two successive years. |
| Grade 4 | Past due or individually impaired | Doubtful assets with significant weakness and chronic over dues |
| Grade 5 | Past due or individually impaired | Loss assets-where legal action for recovery is to be or has been initiated |

2007

| | <i>Neither past due nor impaired</i> | | | <i>Past due or individually impaired</i> <i>AED'000</i> | <i>Total</i> <i>AED'000</i> |
|--|---|---|----------------|--|--------------------------------|
| | <i>Standard grade</i> <i>AED'000</i> | <i>Sub-standard grade</i> <i>AED'000</i> | | | |
| Balances and deposit with banks | 471,826 | - | - | - | 471,826 |
| Islamic financing and investing assets | 7,409,999 | 1,932 | 156,493 | 156,493 | 7,568,424 |
| | <u>7,881,825</u> | <u>1,932</u> | <u>156,493</u> | <u>156,493</u> | <u>8,040,250</u> |

2006

| | <i>Neither past due nor impaired</i> | | | <i>Past due or individually impaired</i> <i>AED'000</i> | <i>Total</i> <i>AED'000</i> |
|---------------------------------|---|---|---------------|--|--------------------------------|
| | <i>Standard grade</i> <i>AED'000</i> | <i>Sub-standard grade</i> <i>AED'000</i> | | | |
| Balances and deposit with banks | 2,956,122 | - | - | - | 2,956,122 |
| Loans and advances to customers | 1,410,382 | 33,617 | 61,628 | 61,628 | 1,505,627 |
| | <u>4,366,504</u> | <u>33,617</u> | <u>61,628</u> | <u>61,628</u> | <u>4,461,749</u> |

Dubai Bank PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

25 RISK MANAGEMENT (continued)

QUANTITATIVE INFORMATION (continued)

Aging analysis of past due but not impaired loans per class of financial assets

| | 2007 | | | | Total AED'000 |
|--|---------------------------------|-----------------------------|-----------------------------|---------------------------------|------------------|
| | Less than 30 days AED'000 | 31 to 60 days AED'000 | 60 to 90 days AED'000 | More than 91 Days AED'000 | |
| Balances and deposit with banks | - | - | - | - | - |
| Islamic financing and investing assets | 79,969 | 19,187 | 7,785 | 5,774 | 112,715 |
| Total | 79,969 | 19,187 | 7,785 | 5,774 | 112,715 |

| | 2006 | | | | Total AED'000 |
|---------------------------------|---------------------------------|-----------------------------|-----------------------------|---------------------------------|------------------|
| | Less than 30 days AED'000 | 31 to 60 days AED'000 | 60 to 90 days AED'000 | More than 91 Days AED'000 | |
| Balances and deposit with banks | - | - | - | - | - |
| Loans and advances to customers | 19,988 | 2,720 | 4,221 | 8,347 | 35,276 |
| Total | 19,988 | 2,720 | 4,221 | 8,347 | 35,276 |

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

| | 2007 AED'000 | 2006 AED'000 |
|--|-----------------|-----------------|
| Islamic financing and investing assets | 325,529 | - |
| Loans and advances to customers | - | 124,295 |
| | 325,529 | 124,295 |

Collateral and other credit enhancements

The amount and type of collateral depends on an assessment of the credit risk of the counterparty. The types of collateral mainly includes cash, charges over real estate properties, inventory and trade receivables.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The bank also makes use of master netting agreements with counterparties.

MARKET RISK

The Bank has established risk management policies and limits within which exposure to market risk is monitored, measured and controlled by the RMG with strategic oversight exercised by ALRMC. The RMG's Market Risk Management (MRM) unit is responsible for developing and implementing market risk policy and risk measuring/monitoring methodology and for reviewing all new products and product limits prior to ALRMC approval. MRM's core responsibility is to measure and report market risk against limits throughout the Bank.

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to profit rate risk as a result of mismatches of profit rate repricing of assets and liabilities. The Board has established levels of profit rate risk by setting profit rate sensitivity limits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

25 RISK MANAGEMENT (continued)**QUANTITATIVE INFORMATION (continued)**

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

The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates on the net profit for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2007. The sensitivity of equity is calculated by revaluing fixed rate available for sale financial assets.

| | <i>Increase in basis points</i> | <i>2007 Sensitivity of net profit AED '000</i> | <i>Sensitivity of equity AED '000</i> |
|--------|---|--|---|
| AED | 25 | 2,645 | - |
| USD | 25 | 1,715 | (250) |
| EUR | 25 | (45) | - |
| Others | 25 | 208 | - |
| | <i>Decrease in basis points</i> | <i>Sensitivity of net profit AED '000</i> | <i>Sensitivity of equity AED '000</i> |
| AED | 25 | (2,722) | - |
| USD | 25 | (1,684) | 250 |
| EUR | 25 | 45 | - |
| Others | 25 | (208) | - |
| | | <i>2006</i> | |
| | <i>Increase in basis points</i> | <i>Sensitivity of net profit AED '000</i> | <i>Sensitivity of equity AED '000</i> |
| AED | 25 | 1,291 | (150) |
| USD | 25 | 1,136 | (252) |
| EUR | 25 | (98) | - |
| Others | 25 | 166 | - |
| | <i>Decrease in basis points</i> | <i>Sensitivity of net profit AED '000</i> | <i>Sensitivity of equity AED '000</i> |
| AED | 25 | (1,242) | 150 |
| USD | 25 | (1,129) | 252 |
| EUR | 25 | 98 | - |
| Others | 25 | (162) | - |

25 RISK MANAGEMENT (continued)**QUANTITATIVE INFORMATION (continued)*****Currency risk***

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2007 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the UAE Dirham, with all other variables held constant on the income statement due to the fair value of currency sensitive non-trading monetary assets and liabilities. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

| | 2007 | | 2006 | |
|-----------------|---|--|---|--|
| | <i>Change in currency rate in %</i> | <i>Effect on profit AED '000</i> | <i>Change in currency rate in %</i> | <i>Effect on profit AED '000</i> |
| <i>Currency</i> | | | | |
| USD | - 5% | (39,301) | - 5% | (12,008) |

The bank is not exposed to any other significant currency risk.

Equity price risk

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

The effect on equity as a result of a change in the fair value of equity instruments held as available for sale at 31 December 2007, due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market indices

| | 2007 | | 2006 | |
|--------|-------------------------------------|--|-----------------------------------|--|
| | <i>Increase in equity price</i> | <i>Effect on equity AED '000</i> | <i>Change in equity price</i> | <i>Effect on equity AED '000</i> |
| DFM | 5% | 19,868 | 5% | 762 |
| DIFX | 5% | 1,670 | 5% | 1,763 |
| ADSM | 5% | 25 | 5% | 84 |
| OTHERS | 5% | 724 | 5% | 3,164 |

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its counterparties repay earlier or later than expected.

The Bank does not have any significant prepayments risk as all the financial assets where prepayment risk exists are purchased at or near par value together with an early settlement fee.

OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit

Dubai Bank PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

25 RISK MANAGEMENT (continued)*Maturity analysis of assets and liabilities*

The maturity analysis of assets, liabilities and off balance sheet items analysed according to when they are expected to be recovered or settled.

| | Less than 3 month 2007 AED '000 | 3 to 6 months 2007 AED '000 | 6 to 12 months 2007 AED '000 | Subtotal less than 12 months 2007 AED '000 | 1 to 5 years 2007 AED '000 | Over 5 years 2007 AED '000 | Subtotal over 12 months 2007 AED '000 | Undated 2007 AED '000 | Total 2007 AED '000 |
|---|--|--|---|---|---|---|--|--------------------------------------|------------------------------------|
| ASSETS | | | | | | | | | |
| Cash and balances with UAE Central Bank | 1,292,940 | - | - | 1,292,940 | - | - | - | 329,863 | 1,622,803 |
| Balances and deposit with banks | 257,857 | 9,251 | 17,452 | 284,560 | 187,266 | - | 187,266 | - | 471,826 |
| Islamic financing and investing assets | 2,798,000 | 1,638,570 | 1,060,668 | 5,497,238 | 1,845,006 | 182,402 | 2,027,408 | - | 7,524,646 |
| Investment securities | - | 470,674 | - | 470,674 | 502,040 | 49,932 | 551,972 | - | 1,022,646 |
| Premises and equipment | - | - | - | - | - | - | - | 58,683 | 58,683 |
| Other assets | 216,718 | - | - | 216,718 | - | - | - | - | 216,718 |
| Total assets | 4,565,515 | 2,118,495 | 1,078,120 | 7,762,130 | 2,534,312 | 232,334 | 2,766,646 | 388,546 | 10,917,322 |
| LIABILITIES AND EQUITY | | | | | | | | | |
| Customers' deposits | 7,179,982 | 526,926 | 27,563 | 7,734,471 | 22 | - | 22 | - | 7,734,493 |
| Due to banks and other financial institutions | 884,010 | - | - | 884,010 | - | - | - | - | 884,010 |
| Other liabilities | 251,554 | - | - | 251,554 | - | - | - | - | 251,554 |
| Shareholders' equity | - | - | - | - | - | - | - | 2,047,265 | 2,047,265 |
| Total liabilities and equity | 8,315,546 | 526,926 | 27,563 | 8,870,035 | 22 | - | 22 | 2,047,265 | 10,917,322 |
| Net liquidity gap | (3,750,031) | 1,591,569 | 1,050,557 | (1,107,905) | 2,534,290 | 232,334 | 2,766,624 | (1,658,719) | - |
| Cumulative net liquidity gap | - | (2,158,462) | (1,107,905) | (1,107,905) | 1,426,385 | 1,658,719 | 1,658,719 | - | - |

Dubai Bank PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

25 RISK MANAGEMENT (continued)

Maturity analysis of assets and liabilities (continued)

| | Less than 3 month 2006 AED '000 | 3 to 6 months 2006 AED '000 | 6 to 12 months 2006 AED '000 | Subtotal less than 12 months 2006 AED '000 | 1 to 5 years 2006 AED '000 | Over 5 years 2006 AED '000 | Subtotal over 12 months 2006 AED '000 | Undated 2006 AED '000 | Total 2006 AED '000 |
|---|--|--------------------------------------|---------------------------------------|--|-------------------------------------|-------------------------------------|---|-----------------------------|---------------------------|
| ASSETS | | | | | | | | | |
| Cash and balances with UAE Central Bank | 33,479 | - | - | 33,479 | - | - | - | 379,765 | 413,244 |
| Balances and deposit with banks | 2,785,068 | 10,804 | 61,405 | 2,857,277 | 98,845 | - | 98,845 | - | 2,956,122 |
| Loans and advances to customers | 536,364 | 172,158 | 269,198 | 977,720 | 448,184 | 79,723 | 527,907 | - | 1,505,627 |
| Investment securities | - | 7,346 | - | 7,346 | 272,784 | 42 | 272,826 | 219,436 | 499,608 |
| Premises and equipment | - | - | - | - | - | - | - | 34,890 | 34,890 |
| Other assets | 149,593 | - | - | 149,593 | - | - | - | - | 149,593 |
| Total assets | 3,504,504 | 190,308 | 330,603 | 4,025,415 | 819,813 | 79,765 | 899,578 | 634,091 | 5,559,084 |
| LIABILITIES AND EQUITY | | | | | | | | | |
| Customers' deposits | 4,425,450 | 37,221 | 15,310 | 4,477,981 | 435 | - | 435 | - | 4,478,416 |
| Due to banks and other financial institutions | 252,150 | - | - | 252,150 | - | - | - | - | 252,150 |
| Other liabilities | 181,589 | - | - | 181,589 | 7,346 | - | 7,346 | - | 188,935 |
| Shareholders' equity | - | - | - | - | - | - | - | 639,583 | 639,583 |
| Total liabilities and equity | 4,859,189 | 37,221 | 15,310 | 4,911,720 | 7,781 | - | 7,781 | 639,583 | 5,559,084 |
| Net liquidity gap | (1,354,685) | 153,087 | 315,293 | (886,305) | 812,032 | 79,765 | 891,797 | (5,492) | - |
| Cumulative net liquidity gap | - | (1,201,598) | (886,305) | (886,305) | (74,273) | 5,492 | 5,492 | - | - |

Dubai Bank PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

25 RISK MANAGEMENT (continued)

Maturity analysis of assets and liabilities (continued)

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2007 based on contractual undiscounted repayment obligations. Repayments which are subjected to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history. The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of these off-balance sheets items

| 2007 | On demand AED'000 | Less than 3 months AED'000 | 3 to 6 months AED'000 | 6 to 12 months AED'000 | 1 to 5 years AED'000 | 5 to 10 years AED'000 | Total AED'000 |
|--|----------------------|----------------------------------|-----------------------------|------------------------------|----------------------------|-----------------------------|-------------------|
| Customers' deposits | 3,736,408 | 3,462,042 | 541,501 | 28,649 | 23 | - | 7,768,623 |
| Due to banks and other financial institutions | 155,029 | 730,270 | - | - | - | - | 885,299 |
| Other liabilities | - | 251,554 | - | - | - | - | 251,554 |
| Total undiscounted on balance sheet repayment obligations | 3,891,437 | 4,443,866 | 541,501 | 28,649 | 23 | - | 8,905,476 |
| OFF BALANCE SHEET ITEMS | | | | | | | |
| Contingent liabilities | - | 325,349 | 204,125 | 54,622 | 22,049 | 694,050 | 1,300,195 |
| Commitments | 3,151,320 | 19,907 | 3,306 | 10,055 | 16,088 | - | 3,200,676 |
| Total | 3,151,320 | 345,256 | 207,431 | 64,677 | 38,137 | 694,050 | 4,500,871 |
| | 7,042,757 | 4,789,122 | 748,932 | 93,326 | 38,160 | 694,050 | 13,406,347 |

Dubai Bank PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

25 RISK MANAGEMENT (continued)*Maturity analysis of assets and liabilities (continued)*

| 2006 | On demand AED '000 | Less than 3 months AED '000 | 3 to 6 months AED '000 | 6 to 12 months AED '000 | 1 to 5 years AED '000 | 5 to 10 years AED '000 | Total AED '000 |
|--|-----------------------|-----------------------------------|------------------------------|-------------------------------|-----------------------------|------------------------------|-------------------|
| Customers' deposits | 1,288,014 | 3,153,075 | 38,275 | 15,997 | 467 | - | 4,495,828 |
| Due to banks and other financial institutions | 27,055 | 225,512 | - | - | - | - | 252,567 |
| Other liabilities | - | 181,589 | - | - | 7,346 | - | 188,935 |
| Total undiscounted on balance sheet repayment obligations | 1,315,069 | 3,560,176 | 38,275 | 15,997 | 7,813 | - | 4,937,330 |
| OFF BALANCE SHEET ITEMS | | | | | | | |
| Contingent liabilities | - | 259,600 | 98,328 | 87,502 | 414,405 | - | 859,835 |
| Commitments | 350,048 | 419 | - | 2,364 | 4,920 | - | 357,751 |
| | 350,048 | 260,019 | 98,328 | 89,866 | 419,325 | - | 1,217,586 |
| Total | 1,665,117 | 3,820,195 | 136,603 | 105,863 | 427,138 | - | 6,154,916 |

Dubai Bank PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

26 CAPITAL ADEQUACY

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Central Bank of UAE in supervising the Bank.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

The risk asset ratio calculations, in accordance with the capital adequacy guidelines established for the banking industry, are as follows:

CAPITAL BASE

| | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
|--------------------|-------------------------------|-------------------------------|
| Tier 1 capital | 1,635,691 | 455,904 |
| Tier 2 capital | 90,358 | 1,751 |
| Total capital base | <u>1,726,049</u> | <u>457,655</u> |

RISK WEIGHTED EXPOSURES

| | <i>Balance weighted</i> | | <i>Risk equivalents</i> | |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> | <i>2007</i> <i>AED'000</i> | <i>2006</i> <i>AED'000</i> |
| ASSETS | | | | |
| Cash and claims on, guaranteed by or collateralised by securities of central governments and central banks | 3,530,340 | 635,130 | - | - |
| Claims on Public Sector entities | 219,625 | 117,056 | 43,925 | 23,411 |
| Claims on banks incorporated in Non OECD and GCC countries and the portion of claims guaranteed by such banks | 119,098 | 227,141 | 59,549 | 113,570 |
| Claims on private sector entities and all other assets | 6,688,418 | 1,730,300 | 6,688,419 | 1,730,300 |
| Claims on banks incorporated in OECD and GCC countries and portion of claims guaranteed by such banks | 359,841 | 2,775,199 | 71,968 | 555,040 |
| OFF BALANCE SHEET ITEMS | | | | |
| Credit commitments and contingent items (note 22) | 1,300,195 | 859,835 | 554,607 | 325,465 |
| Credit risk weighted assets and off balance sheet items | 1,650 | 527,855 | 342 | 2,824 |
| Market risk weighted assets and off balance sheet items | - | - | - | - |
| Total risk weighted assets | <u>12,219,167</u> | <u>6,872,516</u> | <u>7,418,810</u> | <u>2,750,610</u> |
| Risk asset ratio | | | <u>24%</u> | <u>17%</u> |

Dubai Bank PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

27 FAIR AND CARRYING VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences therefore can arise between book values under the historical cost method and fair value estimates. The fair value of the Bank's financial instruments is not materially different from the carrying value at 31 December 2007, since these are either short-term in nature, valued using quoted market prices or in the case of Islamic financing and investing assets and deposits, frequently repriced.

The following table shows an analysis of carrying value of financial assets and financial liabilities as defined in IAS 39 "Financial Instruments ; Recognition and Measurement":

31 December 2007

| | <i>Available for sale</i> | | <i>Loans and Receivables</i> | <i>Other at Amortised cost</i> | <i>AED'000</i> |
|--|---|-----------------------------|----------------------------------|--|-------------------|
| | <i>Quoted market values AED'000</i> | <i>Unquoted AED'000</i> | | | |
| Financial Assets | | | | | |
| Cash and balances with UAE Central Bank | - | - | - | 1,622,803 | 1,622,803 |
| Balances and deposit with banks | - | - | - | 471,826 | 471,826 |
| Islamic financing and investing assets | - | - | 7,524,646 | - | 7,524,646 |
| Investment securities | 1,002,097 | 20,549 | - | - | 1,022,646 |
| Other assets | - | - | - | 177,618 | 177,618 |
| Total | 1,002,097 | 20,549 | 7,524,646 | 2,272,247 | 10,819,539 |
| Financial Liabilities | | | | | |
| Customers' deposits | - | - | - | 7,734,493 | 7,734,493 |
| Due to banks and other financial institutions | - | - | - | 884,010 | 884,010 |
| Other liabilities | - | - | - | 251,554 | 251,554 |
| Total | - | - | - | 8,870,057 | 8,870,057 |

Dubai Bank PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

27 FAIR AND CARRYING VALUE OF FINANCIAL INSTRUMENTS (continued)

31 December 2006

| | <i>Available for sale</i> | | <i>Loans and Receivables</i> | <i>Other at Amortised cost</i> | <i>AED '000</i> |
|--|--|------------------------------|----------------------------------|--|------------------|
| | <i>Quoted market values AED '000</i> | <i>Unquoted AED '000</i> | | | |
| <i>Financial Assets</i> | | | | | |
| Cash and balances with UAE Central Bank | - | - | - | 413,244 | 413,244 |
| Balances and deposit with banks | - | - | - | 2,956,122 | 2,956,122 |
| Islamic financing and investing assets | - | - | 1,505,627 | - | 1,505,627 |
| Investment securities | 353,799 | 85,809 | - | 60,000 | 499,608 |
| Other assets | - | - | - | 126,586 | 126,586 |
| Total | 353,799 | 85,809 | 1,505,627 | 3,555,952 | 5,501,187 |
| <i>Financial Liabilities</i> | | | | | |
| Customers' deposits | - | - | - | 4,478,416 | 4,478,416 |
| Due to banks and other financial institutions | - | - | - | 252,150 | 252,150 |
| Other liabilities | - | - | - | 188,935 | 188,935 |
| Total | - | - | - | 4,919,501 | 4,919,501 |

The bank has no financial instruments recorded at fair value through profit and loss.

In absence of reliable data, the unquoted investments is recorded at historical cost.

28 SUBSIDIARY

The Bank established a subsidiary, Dubai Tadawul LLC, to undertake securities and commodities brokerage in local and other markets. Dubai Tadawul LLC has commenced its commercial operations on 17 July 2007. These are the first set of statutory consolidated financial statements of Dubai Bank PJSC and its subsidiary.

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF DUBAI BANK PUBLIC JOINT STOCK COMPANY

Report on the Financial Statements

We have audited the accompanying financial statements of Dubai Bank Public Joint Stock Company (the “Bank”) which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors’ Responsibility for the Financial Statements

Directors are responsible for the preparation and fair representation of these financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of associations of the Bank, Federal Law No. 8 of 1984 (as amended) and Federal Law No. 10 of 1980. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors’ Responsibility

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

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

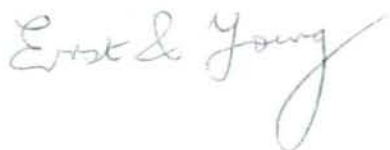
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2006, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other Legal and Regulatory Requirements

We also confirm that, in our opinion, the financial statements include in all material respects, the applicable requirements of Federal Law No. 8 of 1984 (as amended), Federal Law No. 10 of 1980 and the articles of association of the Bank; proper books of account have been kept by the Bank, and the contents of the report of the Board of Directors relating to these financial statements are in agreement with the books of account. We have obtained all the information and explanations we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the articles of association of the Bank, Federal Law No. 8 of 1984 (as amended) or Federal Law No. 10 of 1980 have occurred during the year which would have had a material effect on the business of the Bank or on its financial position.



Signed by
Edward B Quinlan
Partner
Registration No. 93

15 March 2007

Dubai

Dubai Bank
Public Joint Stock Company

INCOME STATEMENT
Year ended 31 December 2006

| | <i>Notes</i> | 2006 AED '000 | 2005 AED'000 |
|--|--------------|--------------------------------|-------------------------------|
| Interest income | | 279,921 | 182,894 |
| Interest expense | | (106,589) | (58,892) |
| NET INTEREST INCOME | | 173,332 | 124,002 |
| Gain on the sale of the credit card business | 3 | 53,717 | - |
| Gain on sale of available for sale investments | | 30,550 | 81,679 |
| Other income | 4 | 74,045 | 64,235 |
| OPERATING INCOME | | 331,644 | 269,916 |
| General and administrative expenses | 5 | (198,968) | (152,860) |
| Provisions for impairment of loans and advances, net | 8 | (27,777) | (14,250) |
| PROFIT FOR THE YEAR | | 104,899 | 102,806 |

The accompanying notes 1 to 24 form an integral part of these financial statements.

BALANCE SHEET
As at 31 December 2006

| | <i>Notes</i> | <i>2006</i> <i>AED'000</i> | <i>2005</i> <i>AED'000</i> |
|---|--------------|-------------------------------|-------------------------------|
| ASSETS | | | |
| Cash and balances with UAE Central Bank | 6 | 413,244 | 1,225,406 |
| Due from banks | 7 | 2,956,122 | 1,511,533 |
| Loans and advances to customers | 8 | 1,505,627 | 1,621,274 |
| Investment securities | 9 | 499,608 | 341,619 |
| Premises and equipment | 10 | 34,890 | 35,648 |
| Other assets | 11 | 149,593 | 45,744 |
| TOTAL ASSETS | | <u>5,559,084</u> | <u>4,781,224</u> |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES | | | |
| Due to banks | | 252,150 | 202,123 |
| Customers' deposits | 12 | 4,478,416 | 3,716,830 |
| Other liabilities | 13 | 188,935 | 309,737 |
| TOTAL LIABILITIES | | <u>4,919,501</u> | <u>4,228,690</u> |
| EQUITY | | | |
| Share capital | 14 | 500,000 | 500,000 |
| Special reserve | 14 | 21,178 | 10,688 |
| Statutory reserve | 14 | 15,235 | 3,039 |
| Cumulative changes in fair values | | 3,892 | 21,742 |
| Retained earnings | | 99,278 | 17,065 |
| TOTAL EQUITY | | <u>639,583</u> | <u>552,534</u> |
| TOTAL LIABILITIES AND EQUITY | | <u>5,559,084</u> | <u>4,781,224</u> |

Approved by the Board of Directors on 15/03 2007 and signed on its behalf by:



Mohamed Ibrahim Al Shaibani
Chairman



Abdul Aziz Al Muhairi
Chief Executive Officer

The accompanying notes 1 to 24 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

| | <i>Share capital AED'000</i> | <i>Special reserve AED '000</i> | <i>Statutory reserve AED'000</i> | <i>Cumulative changes in fair value AED'000</i> | <i>Retained earnings / (accumulated deficit) AED'000</i> | <i>Total AED'000</i> |
|--|--------------------------------------|---|--|---|--|--------------------------|
| Balance at 1 January 2005 | 500,000 | 407 | - | (16) | (72,421) | 427,970 |
| Net movement in cumulative changes in fair value | - | - | - | 21,758 | - | 21,758 |
| Total income and expense for the year recognised directly in equity | - | - | - | 21,758 | - | 21,758 |
| Profit for the year | - | - | - | - | 102,806 | 102,806 |
| Total income and expenses for the year | - | - | - | 21,758 | 102,806 | 124,564 |
| Transfer to statutory reserve | - | - | 3,039 | - | (3,039) | - |
| Transfer to special reserve | - | 10,281 | - | - | (10,281) | - |
| Balance at 31 December 2005 | 500,000 | 10,688 | 3,039 | 21,742 | 17,065 | 552,534 |
| Realised gain on available for sale investment securities reclassified to income statement | - | - | - | (2,593) | - | (2,593) |
| Net movement in cumulative changes in fair value | - | - | - | (15,257) | - | (15,257) |
| Total income and expense for the year recognised directly in equity | - | - | - | (17,850) | - | (17,850) |
| Profit for the year | - | - | - | - | 104,899 | 104,899 |
| Total income and expenses for the year | - | - | - | (17,850) | 104,899 | 87,049 |
| Transfer to statutory reserve | - | - | 12,196 | - | (12,196) | - |
| Transfer to special reserve | - | 10,490 | - | - | (10,490) | - |
| Balance at 31 December 2006 | 500,000 | 21,178 | 15,235 | 3,892 | 99,278 | 639,583 |

The accompanying notes 1 to 24 form an integral part of these financial statements.

CASH FLOW STATEMENT

Year ended 31 December 2006

| | <i>Notes</i> | <i>2006</i> <i>AED'000</i> | <i>2005</i> <i>AED'000</i> |
|---|--------------|-------------------------------|-------------------------------|
| OPERATING ACTIVITIES | | | |
| Profit for the year | | 104,899 | 102,806 |
| Adjustments for: | | | |
| Depreciation | 10 | 11,995 | 11,368 |
| Provision for impairment of loans and advances to customers net of transfer | 8 | 13,294 | 14,250 |
| Gain on disposal of available for sale investments | | (30,550) | (81,679) |
| | | 99,638 | 46,745 |
| Changes in operating assets and liabilities: | | | |
| Reserves with UAE Central Bank | | (158,047) | (100,082) |
| Deposits with maturity greater than 90 days | | - | 126,019 |
| Due from banks | | 98,677 | (261,446) |
| Loans and advances to customers | | 102,353 | (452,623) |
| Other assets | | (103,849) | (16,271) |
| Due to banks | | 50,027 | 196,575 |
| Customers' deposits | | 761,586 | 1,795,981 |
| Other liabilities | | (120,802) | 238,437 |
| Net cash from operating activities | | 729,583 | 1,573,335 |
| INVESTING ACTIVITIES | | | |
| Purchase of premises and equipment | 10 | (11,356) | (8,157) |
| Purchase of investment securities | | (541,270) | (483,735) |
| Disposal of premises and equipment | | 119 | 17 |
| Proceeds from disposal of investment securities | | 395,981 | 434,978 |
| Net cash used in investing activities | | (156,526) | (56,897) |
| INCREASE IN CASH AND CASH EQUIVALENTS | | 573,057 | 1,516,438 |
| Cash and cash equivalents at 1 January | | 2,090,714 | 574,276 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | | 2,663,771 | 2,090,714 |
| Cash and cash equivalents comprise the following balance sheet amounts: | | | |
| Cash and balances with UAE Central Bank | | 413,244 | 1,225,406 |
| Due from banks | | 2,956,122 | 1,511,533 |
| | | 3,369,366 | 2,736,939 |
| Reserves with UAE Central Bank | | (379,765) | (221,718) |
| Deposits with maturity greater than 90 days | | - | - |
| Current accounts with banks | | (50,671) | (28,111) |
| Due from banks | | (275,159) | (396,396) |
| | | 2,663,771 | 2,090,714 |
| Operational cash flows from interest and dividend: | | | |
| Interest paid | | 104,092 | 53,642 |
| Interest received | | 264,315 | 176,835 |
| Dividend received | | 178 | - |

The accompanying notes 1 to 24 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2006

1 GENERAL

Dubai Bank PJSC (the “Bank”) was incorporated in 2002 and is registered under the Commercial Companies Law Number 8 of 1984 (as amended) as a Public Joint Stock Company. It was issued a licence by the UAE Central Bank on 5 August 2002 and commenced effective operations on 22 September 2002. The address of the Bank’s registered office is P.O. Box 65555, Dubai, United Arab Emirates.

In accordance with an agreement dated 15 October 2006, Emaar Properties PJSC (the “former Parent Company”) sold 70% of its shareholding in the Bank to Dubai Financial L.L.C., a limited liability company registered in the Emirate of Dubai, United Arab Emirates. Dubai Financial L.L.C. is a wholly owned subsidiary of Dubai Investment Group L.L.C., which is wholly owned by Dubai Holding L.L.C., a limited liability Company registered in the Emirate of Dubai, United Arab Emirates. The above sale was made effective 30 June 2006.

The Bank’s principal activity is commercial banking. The bank decided to convert itself into a Shari’a Compliant Islamic Bank effective 1 January 2007.

2 SIGNIFICANT ACCOUNTING POLICIES

Accounting convention

The financial statements are prepared under the historical cost convention as modified for the measurement at fair value of derivatives and investment securities other than held to maturity investments.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of United Arab Emirates laws.

The financial statements have been presented in UAE Dirhams which is the functional currency of the Bank and all values are rounded to the nearest thousand UAE Dirhams except when otherwise indicated.

Changes in accounting policies

The accounting policies are consistent with those used in the previous year.

IASB Standards and Interpretations issued but not adopted

The following IASB Standards and Interpretations have been issued but are not yet mandatory, and have not yet been adopted by the Bank.

Amendments to IAS 1 – Capital Disclosures

Amendments to IAS 1 *Presentation of Financial Statements* were issued by the IASB as *Capital Disclosures* in August 2005. They are required to be applied for periods beginning on or after 1 January 2007. When effective, these amendments will require disclosure of information enabling evaluation of the bank’s objectives, policies and processes for managing capital.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2006

2 SIGNIFICANT ACCOUNTING POLICIES – continued

IFRS 7 Financial Instruments: Disclosures

IFRS 7 Financial Instruments: Disclosures was issued by the IASB in August 2005, becoming effective for periods beginning on or after 1 January 2007. The new standard will require additional disclosure of the significance of financial instruments for the bank's financial position and performance and information about exposure to risks arising from financial instruments.

IFRS 8 Operating Segments

IFRS 8 Operating Segments was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new standard may require changes in the way the bank discloses information about its operating segments.

Due from banks

These are stated at cost less any amounts written off and provision for impairment.

Loans and advances

Loans and advances are stated at amortised cost net of interest suspended and provisions for impairment.

Investment securities

These are classified as follows:

- Held to maturity
- Available for sale

All investments are initially recognised at cost, being the fair value of the consideration given including directly attributable transaction costs.

Premiums and discounts are amortised using the effective interest rate method and taken to interest income.

Held to maturity

Investments classified as held to maturity have fixed or determinable payments and fixed maturity and are intended to be held to maturity. They are carried at amortised cost using the effective interest method, less provision for impairment.

Available for sale

After initial recognition, investments which are classified "available for sale" are normally remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes which are not part of an effective hedging relationship, are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity, is included in the income statement for the period.

That portion of any fair value changes relating to an effective hedging relationship is recognised directly in the income statement.

Fair values

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts, or similar investment vehicles are based on the last published bid price.

For financial instruments where there is no active market fair value is normally based on one of the following:

- recent transactions
- brokers' quotes
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics
- option pricing models.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2006

2 SIGNIFICANT ACCOUNTING POLICIES – continued

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

Premises and equipment

Premises and equipment are initially recorded at cost.

Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment to their residual values as follows:

- | | |
|--|------------|
| • Furniture, fixtures and office equipment | 2-10 years |
| • Computer hardware and software | 3-5 years |
| • Motor vehicles | 3 years |

Costs associated with maintaining computer software programs are recognised as an expense when incurred. However, expenditure that enhances or extends the benefit of computer software programs beyond their original specifications and lives is capitalised.

Capital work-in-progress is not depreciated.

The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Deposits

All money market and customer deposits are carried at cost, less amounts repaid.

Employees' end of service benefits

The Bank provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour Laws.

With respect to its national employees, the Bank makes contributions to the National Pension and Social Security scheme calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Derivatives

Derivatives are stated at fair value.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows of a recognised asset or liability or a forecasted transaction.

In relation to effective fair value hedges any gain or loss from re-measuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the income statement.

In relation to effective cash flow hedges, the gain or loss on the hedging instrument is recognised initially in equity and either transferred to the income statement in the period in which the hedged transaction impacts the income statement, or included as part of the cost of the related asset or liability.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2006

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Derivatives – continued

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Bank in the balance sheet.

Offsetting

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

Revenue recognition

Interest receivable and payable is recognised for all interest bearing instruments on an accrual basis using the effective yield method based on the actual amounts disbursed. The recognition of interest income is suspended when loans become impaired.

Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value. Fees and commissions receivable or payable are recognised as the services are provided.

Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into UAE Dirhams at middle market rates of exchange ruling at the balance sheet date. Any resultant gains and losses are taken to the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise balances with original maturities of less than 90 days from the date of acquisition including cash and balances with U.A.E Central Bank, deposits with banks and other financial institutions.

Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, an impairment loss is recognised in the income statement.

Impairment is determined as follows:

- (a) for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate.
- (b) for assets carried at fair value, impairment is the difference between cost and fair value.
- (c) for assets carried at cost, impairment is based on present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

For available-for-sale equity investments reversals of impairment losses are recorded as increases in cumulative changes in fair value through equity.

In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2006

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Derecognition of financial assets

A financial asset (in whole or in part) is derecognised either (a) when the bank has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred nor retained substantially all the risks and rewards of the assets but has transferred control over the asset or a proportion of the asset.

Trade and settlement date accounting

All regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to or received from the counterparty.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in "Other liabilities". Subsequent to initial recognition, the Bank's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortisation calculated to recognize the fee in the income statement in 'Net fees and commission income' over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement in 'Credit loss expense'. Any financial guarantee liability remaining is recognised in the income statement in 'Net fees and commission income' when the guarantee is discharged, cancelled or expires.

2 a SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Bank's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification of investments

Management decides on acquisition of an investment whether it should be classified as held to maturity or held for trading.

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

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

All other investments are classified as available for sale.

Impairment of investments

The Bank treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the Bank evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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:

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2006

2 a SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – continued

Impairment losses on loans and advances

The Bank reviews its problem loans and advances on a quarterly basis to assess whether a provision for impairment should be recorded in the income statement. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on loans and advances

In addition to specific provisions against individually significant loans and advances, the Bank also makes a collective impairment provision against loans and advances which although not specifically identified as requiring a specific provision have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grade of the loan since it was granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

The internal gradings take into consideration factors such as any deterioration in country risk, industry, technological obsolescence as well as identified structural weaknesses or deterioration in cash flows.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same ; or
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. Management believe that the fair value of these investments is not materially different from their carrying values. The Bank calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

3 SALE OF NON-COMPLIANT ASSETS

As part of the conversion process of the Bank to a Shari'a compliant Islamic Bank, the Bank sold non compliant assets as follows:

- A group of non-compliant assets that were not convertible or disposable at the time of conversion to an Islamic Bank were sold to Dubai Financial LLC under a repo arrangement. Dubai Bank has separately provided funding to Dubai Financial LLC through a Murabaha transaction. Accordingly the sale did not meet the criteria for asset derecognition.

Such assets are included in respective assets groups as follows:

| | <i>2006</i> <i>AED'000</i> |
|---------------------------------|-------------------------------|
| Loans and advances to customers | 164,927 |
| Investment securities | 141,096 |
| Due from banks | 102,048 |

- The conventional Credit Card business was sold to Dubai First LLC. The gain resulting from the sale of AED 53,717 thousand is included in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2006

4 OTHER INCOME

| | <i>2006</i> <i>AED'000</i> | <i>2005</i> <i>AED'000</i> |
|--------------------------------|-------------------------------|-------------------------------|
| Net fees and commission income | 64,075 | 51,504 |
| Foreign exchange gains, net | 9,970 | 12,731 |
| | <u>74,045</u> | <u>64,235</u> |

5 GENERAL AND ADMINISTRATIVE EXPENSES

| | <i>2006</i> <i>AED'000</i> | <i>2005</i> <i>AED'000</i> |
|--------------------------------------|-------------------------------|-------------------------------|
| Staff costs | 101,823 | 79,200 |
| Premises and related costs | 8,726 | 9,635 |
| Technology support and related costs | 5,124 | 8,183 |
| Depreciation (note 10) | 11,995 | 11,368 |
| Others | 71,300 | 44,474 |
| | <u>198,968</u> | <u>152,860</u> |

6 CASH AND BALANCES WITH UAE CENTRAL BANK

| | <i>2006</i> <i>AED'000</i> | <i>2005</i> <i>AED'000</i> |
|---------------------------------|-------------------------------|-------------------------------|
| Cash on hand | 33,479 | 30,206 |
| Balances with UAE Central Bank: | | |
| - Current account | - | 33,482 |
| - Cash reserve requirements | 379,765 | 221,718 |
| - Certificates of deposit | - | 940,000 |
| | <u>413,244</u> | <u>1,225,406</u> |

The reserve requirements, which are all kept with the UAE Central Bank in UAE Dirhams and US Dollars, cannot be withdrawn without the UAE Central Bank's approval. The level of reserves required changes every month in accordance with the UAE Central Bank directives.

7 DUE FROM BANKS

| | <i>2006</i> <i>AED'000</i> | <i>2005</i> <i>AED'000</i> |
|-----------------------|-------------------------------|-------------------------------|
| Current accounts | 50,671 | 28,111 |
| Short term placements | 2,630,292 | 1,087,026 |
| Loans and advances | 275,159 | 396,396 |
| | <u>2,956,122</u> | <u>1,511,533</u> |

Short term placements earn interest at market rates. Three banks account for 92% of the short term placements with banks at 31 December 2006 (2005: 66%).

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2006

8 LOANS AND ADVANCES TO CUSTOMERS

| | <i>2006</i> <i>AED'000</i> | <i>2005</i> <i>AED'000</i> |
|--|-------------------------------|-------------------------------|
| The composition of the loans and advances portfolio is as follows: | | |
| (a) By type: | | |
| Corporate loans | 917,648 | 860,887 |
| Consumer loans | 623,739 | 761,077 |
| Others | - | 21,776 |
| | <hr/> | <hr/> |
| Gross amount of loans and advances | 1,541,387 | 1,643,740 |
| Less: Provisions for impairment of loans and advances | (35,760) | (22,466) |
| | <hr/> | <hr/> |
| Net amount of loans and advances | 1,505,627 | 1,621,274 |
| | <hr/> <hr/> | <hr/> <hr/> |
| (b) By economic sector | | |
| Trade and manufacturing | 486,307 | 518,424 |
| Banks and financial institutions | 34,901 | 62,434 |
| Construction and real estate | 119,172 | 96,982 |
| Personal | 640,470 | 840,014 |
| Others | 224,777 | 103,420 |
| | <hr/> | <hr/> |
| | 1,505,627 | 1,621,274 |
| | <hr/> <hr/> | <hr/> <hr/> |
| (c) By geographical area | | |
| Within UAE | 1,413,237 | 1,529,848 |
| Middle East, except UAE | 20,279 | 14,430 |
| Others | 72,111 | 76,996 |
| | <hr/> | <hr/> |
| | 1,505,627 | 1,621,274 |
| | <hr/> <hr/> | <hr/> <hr/> |

Loans and advances in the balance sheet are stated net of interest in suspense and provisions. The movement in provisions during the year is as follows:

| | <i>2006</i> <i>AED'000</i> | <i>2005</i> <i>AED'000</i> |
|--|-------------------------------|-------------------------------|
| Balance at 1 January | 22,466 | 8,669 |
| | <hr/> | <hr/> |
| Provided for the year | 29,866 | 15,618 |
| Released during the year | (2,089) | (1,368) |
| | <hr/> | <hr/> |
| Charged to the income statement, net | 27,777 | 14,250 |
| Written off during the year | - | (453) |
| Transfer on sale of credit card business | (14,483) | - |
| | <hr/> | <hr/> |
| Balance at 31 December | 35,760 | 22,466 |
| | <hr/> <hr/> | <hr/> <hr/> |

At 31 December 2006, the gross amount of loans and advances on which interest is not being accrued or where interest is suspended amounted to AED 27,916 thousand (2005: AED 21,521 thousand).

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2006

9 INVESTMENT SECURITIES

| | <i>2006</i> <i>AED'000</i> | <i>2005</i> <i>AED'000</i> |
|----------------------------------|-------------------------------|-------------------------------|
| <i>Held to maturity – Quoted</i> | | |
| Government bonds | 60,000 | 60,000 |
| <i>Available for sale</i> | | |
| Quoted | | |
| Debt securities | 202,037 | 109,635 |
| Equities | 129,886 | 60,569 |
| Mutual funds | 21,876 | 7,879 |
| | 353,799 | 178,083 |
| Unquoted | | |
| Debt securities | 18,136 | 80,209 |
| Equities | 67,673 | 23,327 |
| | 85,809 | 103,536 |
| | 499,608 | 341,619 |
| Analysis of debt instruments: | | |
| Fixed rate | 142,376 | 70,799 |
| Floating rate | 137,797 | 179,045 |
| | 280,173 | 249,844 |

Unquoted investments amounting to AED 85,809 thousand (2005: AED 48,808 thousand) are stated at cost as there are no reliable means of estimating the fair value.

10 PREMISES AND EQUIPMENT

| | <i>Furniture, fixtures and office equipment AED'000</i> | <i>Computer hardware and software AED'000</i> | <i>Motor vehicles AED'000</i> | <i>Capital work-in-progress AED'000</i> | <i>Total AED'000</i> |
|---------------------------|---|---|---------------------------------------|---|--------------------------|
| Cost: | | | | | |
| At 1 January 2006 | 21,434 | 37,995 | 329 | 3,323 | 63,081 |
| Additions | 1,098 | 1,408 | 252 | 8,598 | 11,356 |
| Transfers | 2,966 | 1,172 | - | (4,138) | - |
| Disposals | - | - | (210) | - | (210) |
| At 31 December 2006 | 25,498 | 40,575 | 371 | 7,783 | 74,227 |
| Accumulated depreciation: | | | | | |
| At 1 January 2006 | 7,917 | 19,337 | 179 | - | 27,433 |
| Charge for the year | 4,002 | 7,947 | 46 | - | 11,995 |
| Relating to disposals | - | - | (91) | - | (91) |
| At 31 December 2006 | 11,919 | 27,284 | 134 | - | 39,337 |
| Net book value: | | | | | |
| At 31 December 2006 | 13,579 | 13,291 | 237 | 7,783 | 34,890 |
| At 31 December 2005 | 13,517 | 18,658 | 150 | 3,323 | 35,648 |

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2006

11 OTHER ASSETS

| | <i>2006</i> | <i>2005</i> |
|---|----------------|----------------|
| | <i>AED'000</i> | <i>AED'000</i> |
| Interest receivable | 19,663 | 15,545 |
| Assets of Al Muhafez fund product (see below note(i)) | 23,622 | - |
| Receivable from third party (see below note(ii)) | 34,894 | - |
| Receivable from Dubai Tadawul LLC | 10,000 | - |
| Receivable on sale of shares | 16,385 | - |
| Sundry debtors | 14,076 | 3,012 |
| Prepayments | 23,007 | 6,263 |
| Positive fair value of derivatives (see note 15) | 43 | 13,973 |
| Other | 7,903 | 6,951 |
| | <u>149,593</u> | <u>45,744</u> |

Note (i):

The Bank launched a fund called ` Al Muhafez Fund ` . The above balance represent investment made by the Bank on behalf of the Fund . As the Bank remains primarily responsible for repayment of the fund collected and as a separate legal entity has not been established , the funds are recorded on the Bank`s balance sheet.

Note (ii):

Receivable from third party represents investment made by the Bank on behalf of a third party.

12 CUSTOMERS' DEPOSITS

| | <i>2006</i> | <i>2005</i> |
|------------------|------------------|------------------|
| | <i>AED'000</i> | <i>AED'000</i> |
| Demand accounts | 1,091,966 | 1,324,987 |
| Savings accounts | 196,048 | 206,809 |
| Deposit accounts | 3,190,402 | 2,185,034 |
| | <u>4,478,416</u> | <u>3,716,830</u> |

13 OTHER LIABILITIES

| | <i>2006</i> | <i>2005</i> |
|---|----------------|----------------|
| | <i>AED'000</i> | <i>AED'000</i> |
| Interest payable | 14,434 | 9,781 |
| Staff related provisions | 23,549 | 19,897 |
| Payables towards premises and equipment acquisitions | - | 6,735 |
| Accrued expenses | 31,635 | 22,495 |
| Negative fair value of derivatives (see note 15) | 274 | 13,864 |
| Credit linked note | - | 7,346 |
| Refund payable towards initial public offering collection of a non UAE entity | 8,233 | 209,502 |
| Payables for Al Muhafez fund product | 23,848 | - |
| Manager`s cheque | 30,195 | 6,672 |
| Fund transfer account | 26,976 | - |
| UAE switch account | 8,170 | 3,596 |
| Due to VISA | 5,219 | 1,631 |
| Other | 16,402 | 8,218 |
| | <u>188,935</u> | <u>309,737</u> |

The Bank launched a fund called "Al Muhafez Fund". The above balance represents amounts collected by the Bank on behalf of the Fund. As the Bank remains primarily responsible for repayment of the funds collected and as a separate legal entity has not been established, the funds are recorded on the bank's balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2006

14 SHARE CAPITAL AND RESERVES

Share capital

The authorised, issued and fully paid share capital of the Bank comprises 50,000,000 shares (2005: 50,000,000) of AED 10 each.

The directors recommended a resolution be tabled at the Annual General Assembly of the Bank to increase the share capital by AED 1,500 million.

Statutory reserve

In accordance with Article 192 of the Commercial Companies Law Number 8 of 1984 (as amended) and the Articles of Association of the Bank, at least 10% of the profit for the year must be transferred to statutory reserve. The Bank may resolve to discontinue such transfers when the reserve equals 50% of the paid up share capital. For 2006, the Bank opted to transfer 10% of retained earnings to accelerate the build up of the statutory reserve.

Special reserve

In accordance with its Articles of Association and Article 82 of Union Law no. 10 of 1980, the Bank allocates 10% of the annual net profit to a special reserve until such reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

15 DERIVATIVES

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. Derivative financial instruments include forwards, futures, swaps and options.

The table below shows the positive and negative fair values of derivatives financial instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are not indicative of either market or credit risk.

| 31 December | 2006 | | | 2005 | | |
|--------------------------------------|--------------------------------|--------------------------------|----------------------------|--------------------------------|--------------------------------|----------------------------|
| | <i>Positive fair value</i> | <i>Negative fair value</i> | <i>Notional amount</i> | <i>Positive fair value</i> | <i>Negative fair value</i> | <i>Notional amount</i> |
| | <i>AED'000</i> | <i>AED'000</i> | <i>AED'000</i> | <i>AED'000</i> | <i>AED'000</i> | <i>AED'000</i> |
| <i>Derivatives held for trading:</i> | | | | | | |
| Forward foreign exchange contracts | 43 | (274) | 527,855 | 6,033 | (5,917) | 1,045,000 |
| Forward rate agreements | - | - | - | 849 | (855) | 73,460 |
| Foreign exchange options | - | - | - | 7,091 | (7,092) | 756,535 |
| | <u>43</u> | <u>(274)</u> | <u>527,855</u> | <u>13,973</u> | <u>(13,864)</u> | <u>1,874,995</u> |

All forward foreign exchange commitments and forward rate agreements outstanding at the balance sheet date expire within six months of the balance sheet date. The options outstanding at the balance sheet date expire within a year of the balance sheet date.

Derivative product types

Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Forward rate agreements are effectively tailor made interest rate futures that fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

Forwards are contracted agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2006

15 DERIVATIVES - continued

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. Approximately 70% of the Bank's derivative contracts are entered into with other financial institutions and less than 30% of the fair value of favourable contracts are with any individual counterparty at the balance sheet date.

Purpose of derivatives

In the normal course of meeting the needs of the Bank's customers, the Bank is a party to forward foreign exchange contracts, forward rate agreements and forward exchange options. In addition, as part of its asset and liability management the Bank uses forward foreign exchange contracts for hedging purposes in order to reduce its own exposure to currency risks. This is achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures. Since strategic hedging does not qualify for special hedge accounting, such forward foreign exchange contracts are accounted for as trading instruments.

16 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

Credit-related commitments include commitments to extend credit, letters of credit, guarantees and acceptances, which are designed to meet the requirements of the Bank's customers.

Letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses, and normally require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

The Bank has the following credit related commitments:

| | <i>2006</i> | <i>2005</i> |
|--|----------------------------|---------------------|
| | <i>AED'000</i> | <i>AED'000</i> |
| <i>Contingent liabilities:</i> | | |
| Letters of credit | 219,747 | 205,382 |
| Guarantees | 571,961 | 237,248 |
| Acceptances | 68,127 | 55,667 |
| | <hr/> 859,835 <hr/> | <hr/> 498,297 <hr/> |
| <i>Commitments:</i> | | |
| Irrevocable commitments to extend credit | 350,048 | 593,129 |
| | <hr/> 419 <hr/> | <hr/> 1,440 <hr/> |
| <i>Capital commitments:</i> | | |
| Commitments in respect of premises and equipment purchases | 419 | 1,440 |

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2006

17 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

The Bank enters into transactions with its shareholders, directors, senior officers and their related concerns in the ordinary course of business at commercial interest and commission rates. All loans and advances to related parties are performing advances and are free of any provision for possible loan losses.

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

| | 2006 | | | 2005 | | |
|---------------------------------|---------------------|----------------|----------------|---------------------|----------------|----------------|
| | <i>Shareholders</i> | <i>Other</i> | <i>Total</i> | <i>Shareholders</i> | <i>Other</i> | <i>Total</i> |
| | <i>AED'000</i> | <i>parties</i> | <i>AED'000</i> | <i>AED'000</i> | <i>parties</i> | <i>AED'000</i> |
| | | <i>related</i> | | | <i>related</i> | |
| | | <i>AED'000</i> | <i>AED'000</i> | | <i>AED'000</i> | <i>AED'000</i> |
| Loans and advances to customers | - | 91,825 | 91,825 | - | 10,805 | 10,805 |
| Customers' deposits | 99,817 | 78,279 | 178,096 | 942,534 | 17,969 | 960,503 |
| Commitments | 64 | 260,000 | 260,064 | 328 | 9,418 | 9,746 |
| Due from banks | - | 107,554 | 107,554 | - | - | - |

Transactions with related parties included in these financial statements are as follows:

| | 2006 | | | 2005 | | |
|--------------------------------------|---------------------|----------------|----------------|---------------------|----------------|----------------|
| | <i>Shareholders</i> | <i>Other</i> | <i>Total</i> | <i>Shareholders</i> | <i>Other</i> | <i>Total</i> |
| | <i>AED'000</i> | <i>parties</i> | <i>AED'000</i> | <i>AED'000</i> | <i>parties</i> | <i>AED'000</i> |
| | | <i>related</i> | | | <i>related</i> | |
| | | <i>AED'000</i> | <i>AED'000</i> | | <i>AED'000</i> | <i>AED'000</i> |
| Interest and other income | - | 3,671 | 3,671 | - | 430 | 430 |
| Interest expenses | 10,568 | 1,240 | 11,808 | 6,283 | 68 | 6,351 |
| General and administrative expenses | 11,643 | - | 11,643 | 3,842 | 4,180 | 8,022 |
| Gain on sale of credit card business | - | 53,717 | 53,717 | - | - | - |

Compensation of key management personnel is as follows:

| | 2006 | 2005 |
|---|----------------|----------------|
| | <i>AED'000</i> | <i>AED'000</i> |
| Short-term employee benefits | 23,350 | 15,080 |
| Termination benefits | 1,829 | 304 |
| Total compensation paid to key management personnel | 25,179 | 15,384 |

18 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank manages credit risk by setting limits for individual borrowers and groups of borrowers, and for industry segments. The Bank also monitors credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Bank obtains security where appropriate, and limits the duration of exposures.

For details of the composition of the loans and advances portfolio refer to note 8.

Credit risk in respect of derivative financial instruments is limited to those with positive fair value.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2006

19 CONCENTRATIONS

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

The distribution of assets, liabilities and off-balance sheet items by geographic region and industry sector was as follows:

| | 2006 | | | 2005 | | |
|---------------------------------|---------------------------|---|--|---------------------------|---|--|
| | <i>Assets AED'000</i> | <i>Liabilities and equity AED'000</i> | <i>Off balance sheet items AED'000</i> | <i>Assets AED'000</i> | <i>Liabilities and equity AED'000</i> | <i>Off balance sheet items AED'000</i> |
| Geographic region: | | | | | | |
| Domestic (UAE) | 4,947,528 | 5,389,022 | 841,919 | 3,435,638 | 4,629,470 | 388,365 |
| Other Middle East countries | 129,558 | 21,232 | - | 796,264 | 9,194 | 109,444 |
| Rest of the world | 481,998 | 148,830 | 17,916 | 549,322 | 142,560 | 488 |
| TOTAL | 5,559,084 | 5,559,084 | 859,835 | 4,781,224 | 4,781,224 | 498,297 |
| Industry sector: | | | | | | |
| Personal | 640,470 | 1,215,623 | - | 840,014 | 1,114,340 | - |
| Trading and manufacturing | 486,307 | 138,479 | 299,674 | 518,424 | 43,886 | 267,981 |
| Bank and Financial institutions | 3,458,305 | 565,476 | 170,155 | 2,816,533 | 1,150,750 | 26,957 |
| Construction and real estate | 119,172 | 287,583 | 166,272 | 96,982 | 960,143 | 154,511 |
| Other | 854,830 | 3,351,923 | 223,734 | 509,271 | 1,512,105 | 48,848 |
| TOTAL | 5,559,084 | 5,559,084 | 859,835 | 4,781,224 | 4,781,224 | 498,297 |

20 MARKET RISK

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Bank has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Bank's management.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2006

21 INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities.

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

The Bank's interest rate sensitivity position as at 31 December 2006, based on the contractual repricing or maturity dates, whichever is earlier, is as follows:

| | <i>Interest rate%</i> | <i>Less than 3 months</i> <i>AED'000</i> | <i>Over 3 months to 6 months</i> <i>AED'000</i> | <i>Over 6 months to 1 year</i> <i>AED'000</i> | <i>One year to five years</i> <i>AED'000</i> | <i>Over 5 years</i> <i>AED'000</i> | <i>Non interest bearing items</i> <i>AED'000</i> | <i>Total</i> <i>AED'000</i> |
|--|-----------------------|---|--|--|---|---------------------------------------|---|--------------------------------|
| ASSETS | | | | | | | | |
| Cash and balances with the Central Bank | - | - | - | - | - | - | 413,244 | 413,244 |
| Due from banks | 4-8% | 2,849,468 | 64,062 | 36,980 | 5,612 | - | - | 2,956,122 |
| Loans and advances | 6-12% | 629,925 | 273,127 | 148,853 | 448,495 | 5,227 | - | 1,505,627 |
| Investment securities | 5-7% | 21,726 | 64,596 | 55,022 | 138,829 | - | 219,435 | 499,608 |
| Premises and equipment | - | - | - | - | - | - | 34,890 | 34,890 |
| Other assets | - | - | - | - | - | - | 149,593 | 149,593 |
| Total assets | | 3,501,119 | 401,785 | 240,855 | 592,936 | 5,227 | 817,162 | 5,559,084 |
| LIABILITIES | | | | | | | | |
| Due to banks | 4-5% | 252,150 | - | - | - | - | - | 252,150 |
| Customer deposits | 1-6% | 3,839,252 | 37,221 | 15,310 | 435 | - | 586,198 | 4,478,416 |
| Other liabilities | - | - | - | - | - | - | 188,935 | 188,935 |
| Shareholders' funds | - | - | - | - | - | - | 639,583 | 639,583 |
| Total liabilities and shareholders' funds | | 4,091,402 | 37,221 | 15,310 | 435 | - | 1,414,716 | 5,559,084 |
| Total interest rate sensitivity gap | | (590,283) | 364,564 | 225,545 | 592,501 | 5,227 | (597,554) | |
| Cumulative interest rate sensitivity gap | | (590,283) | (225,719) | (174) | 592,327 | 597,554 | - | |

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2006

21 INTEREST RATE RISK – continued

31 December 2005:

| | <i>Effective interest rate%</i> | <i>Up to three months AED '000</i> | <i>Three to six months AED '000</i> | <i>Six months to one year AED '000</i> | <i>One to five years AED '000</i> | <i>Over 5 years AED '000</i> | <i>Non interest bearing items AED '000</i> | <i>Total AED '000</i> |
|--|---|--|---|--|---|--------------------------------------|--|---------------------------|
| <i>ASSETS</i> | | | | | | | | |
| Cash and balances with the Central Bank | 1.5-4.5% | 940,000 | - | - | - | - | 285,406 | 1,225,406 |
| Due from banks | 4-8% | 1,350,102 | 127,691 | 12,179 | 21,561 | - | - | 1,511,533 |
| Loans and advances to customers | 6-10% | 843,104 | 228,630 | 188,844 | 358,156 | 2,540 | - | 1,621,274 |
| Investment securities | 3-6% | 95,038 | 58,443 | 36,363 | 60,000 | - | 91,775 | 341,619 |
| Premises and equipment | - | - | - | - | - | - | 35,648 | 35,648 |
| Other assets | - | - | - | - | - | - | 45,744 | 45,744 |
| <i>Total assets</i> | | <u>3,228,244</u> | <u>414,764</u> | <u>237,386</u> | <u>439,717</u> | <u>2,540</u> | <u>458,573</u> | <u>4,781,224</u> |
| <i>LIABILITIES</i> | | | | | | | | |
| Due to banks | 2.35-4.4% | 202,123 | - | - | - | - | - | 202,123 |
| Customer deposits | 0.5-4.5% | 2,850,056 | 10,768 | 66,176 | 2,353 | - | 787,477 | 3,716,830 |
| Other liabilities | - | - | 7,347 | - | - | - | 302,390 | 309,737 |
| Shareholders' funds | - | - | - | - | - | - | 552,534 | 552,534 |
| <i>Total liabilities and shareholders' funds</i> | | <u>3,052,179</u> | <u>18,115</u> | <u>66,176</u> | <u>2,353</u> | <u>-</u> | <u>1,642,401</u> | <u>4,781,224</u> |
| <i>Total interest rate sensitivity gap</i> | | <u>176,065</u> | <u>396,649</u> | <u>171,210</u> | <u>437,364</u> | <u>2,540</u> | <u>(1,183,828)</u> | |
| <i>Cumulative interest rate sensitivity gap</i> | | <u>176,065</u> | <u>572,714</u> | <u>743,924</u> | <u>1,181,288</u> | <u>1,183,828</u> | <u>-</u> | |

22 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Bank had a long position in US Dollars of AED equivalent of 240 million as at 31 December 2006 (2005: AED 160 million). There were no significant open positions in any other currency. The UAE Dirham/ US Dollar dealing rate fixed by the UAE Central Bank has remained virtually unchanged since November 1980.

23 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The table below summarises the maturity profile of the Bank's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2006

23 LIQUIDITY RISK – continued

The maturity profile of the assets and liabilities at 31 December 2006 was as follows:

| | <i>Total AED</i> | <i>Less than three months AED</i> | <i>three months to six months AED</i> | <i>six months to one year AED</i> | <i>Over one year AED</i> | <i>Items with no maturity AED</i> |
|-----------------------------------|----------------------|---|---|---|----------------------------------|---|
| ASSETS | | | | | | |
| Cash and balances at Central Bank | 413,244 | 413,244 | - | - | - | - |
| Due from banks | 2,956,122 | 2,785,068 | 10,804 | 61,405 | 98,845 | - |
| Loans and advances to customers | 1,505,627 | 536,364 | 172,158 | 269,198 | 527,907 | - |
| Investment securities | 499,608 | - | 7,346 | - | 272,826 | 219,436 |
| Premises and equipment | 34,890 | - | - | - | - | 34,890 |
| Other assets | 149,593 | 149,593 | - | - | - | - |
| Total | 5,559,084 | 3,884,269 | 190,308 | 330,603 | 899,578 | 254,326 |
| LIABILITIES AND EQUITY | | | | | | |
| Due to banks | 252,150 | 252,150 | - | - | - | - |
| Customers' deposits | 4,478,416 | 4,425,450 | 37,221 | 15,310 | 435 | - |
| Other liabilities | 188,935 | 181,589 | - | - | 7,346 | - |
| Equity | 639,583 | - | - | - | - | 639,583 |
| Total | 5,559,084 | 4,859,189 | 37,221 | 15,310 | 7,781 | 639,583 |

31 December 2005:

| | <i>Total AED</i> | <i>Less than three months AED</i> | <i>three months to six months AED</i> | <i>six months to one year AED</i> | <i>Over one year AED</i> | <i>Items with no maturity AED</i> |
|-----------------------------------|----------------------|---|---|---|----------------------------------|---|
| ASSETS | | | | | | |
| Cash and balances at Central Bank | 1,225,406 | 1,225,406 | - | - | - | - |
| Due from banks | 1,511,533 | 1,165,730 | 101,246 | 123,091 | 121,466 | - |
| Loans and advances to customers | 1,621,274 | 557,924 | 245,369 | 206,452 | 611,529 | - |
| Investment securities | 341,619 | - | - | 21,644 | 228,200 | 91,775 |
| Premises and equipment | 35,648 | - | - | - | - | 35,648 |
| Other assets | 45,744 | 45,744 | - | - | - | - |
| Total | 4,781,224 | 2,994,804 | 346,615 | 351,187 | 961,195 | 127,423 |
| LIABILITIES AND EQUITY | | | | | | |
| Due to banks | 202,123 | 202,123 | - | - | - | - |
| Customers' deposits | 3,716,830 | 3,637,533 | 10,768 | 66,176 | 2,353 | - |
| Other liabilities | 309,737 | 302,390 | - | - | 7,347 | - |
| Equity | 552,534 | - | - | - | - | 552,534 |
| Total | 4,781,224 | 4,142,046 | 10,768 | 66,176 | 9,700 | 552,534 |

Maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. In particular, investment securities with contractual maturity dates over one year comprise quoted securities that can be liquidated in less than three months.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2006

24 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences therefore can arise between book values under the historical cost method and fair value estimates. The fair value of the Bank's financial instruments is not materially different from the carrying value at 31 December 2006, since these are either short-term in nature, valued using quoted market prices or in the case of loans and advances and deposits and non-trading investments, frequently repriced.

The fair value of the Bank's off-balance sheet financial instruments is shown in note 15.

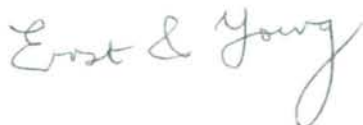
REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF DUBAI BANK PUBLIC JOINT STOCK COMPANY

We have audited the accompanying balance sheet of Dubai Bank Public Joint Stock Company (the "Bank") as of 31 December 2005, and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply, where appropriate, with the articles of association of the Bank, Federal Law No.8 of 1984 (as amended) and Federal Law No. 10 of 1980.

We also confirm that in our opinion proper books of account have been kept by the Bank, and the contents of the report of the Board of Directors relating to these financial statements are in agreement with the books of account. We have obtained all the information and explanations we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the articles of association of the Bank, Federal Law No. 8 of 1984 (as amended) or Federal Law No. 10 of 1980 have occurred during the year which would have had a material effect on the business of the Bank or on its financial position.



Signed by
Edward B Quinlan
Partner
Registration No. 93

19 January 2006

Dubai

A Member of Ernst & Young Global

Dubai Bank
Public Joint Stock Company

INCOME STATEMENT
Year ended 31 December 2005

| | <i>Notes</i> | 2005 AED '000 | 2004 AED'000 |
|--|--------------|--------------------------------|-------------------------------|
| Interest income | | 182,894 | 86,973 |
| Interest expense | | (58,892) | (16,432) |
| NET INTEREST INCOME | | 124,002 | 70,541 |
| Gain on sale of available for sale investments | | 81,679 | 754 |
| Other income | 3 | 64,235 | 39,742 |
| | | 269,916 | 111,037 |
| General and administrative expenses | 4 | (152,860) | (100,862) |
| Provisions for impairment of loans and advances, net | 8 | (14,250) | (6,106) |
| NET PROFIT FOR THE YEAR | | 102,806 | 4,069 |
| Basic earnings per share | 5 | AED 2.06 | AED 0.11 |
| Diluted earnings per share | 5 | AED 2.06 | AED 0.08 |

The accompanying notes 1 to 26 form an integral part of these financial statements.

Dubai Bank
Public Joint Stock Company

BALANCE SHEET
As at 31 December 2005

| | Notes | 2005 AED'000 | 2004 AED'000 |
|---|-------|------------------|------------------|
| ASSETS | | | |
| Cash and balances with UAE Central Bank | 6 | 1,225,406 | 297,570 |
| Due from banks | 7 | 1,511,533 | 687,422 |
| Loans and advances to customers | 8 | 1,621,274 | 1,182,901 |
| Investment securities | 9 | 341,619 | 189,425 |
| Premises and equipment | 10 | 35,648 | 38,876 |
| Other assets | 11 | 45,744 | 29,473 |
| TOTAL ASSETS | | 4,781,224 | 2,425,667 |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES | | | |
| Due to banks | | 202,123 | 5,548 |
| Customers' deposits | 12 | 3,716,830 | 1,920,849 |
| Other liabilities | 13 | 309,737 | 71,300 |
| TOTAL LIABILITIES | | 4,228,690 | 1,997,697 |
| EQUITY | | | |
| Share capital | 14 | 500,000 | 500,000 |
| Special reserve | 14 | 10,688 | 407 |
| Statutory reserve | 14 | 3,039 | - |
| Cumulative changes in fair values | | 21,742 | (16) |
| Retained earnings / (accumulated deficit) | | 17,065 | (72,421) |
| TOTAL EQUITY | | 552,534 | 427,970 |
| TOTAL LIABILITIES AND EQUITY | | 4,781,224 | 2,425,667 |

Approved by the Board of Directors on 19 January 2006 and signed on its behalf by:



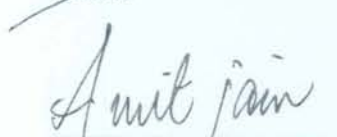
Mohamed Bin Ali Al Abbar
Vice Chairman



Mohamed Ibrahim Al Shaibani
Director



Ziad Makkawi
Chief Executive Officer



Amit Jain
Head of Finance

The accompanying notes 1 to 26 form an integral part of these financial statements.

Dubai Bank
Public Joint Stock Company

STATEMENT OF CASH FLOWS

Year ended 31 December 2005

| | <i>Notes</i> | <i>2005</i> <i>AED'000</i> | <i>2004</i> <i>AED'000</i> |
|---|--------------|-------------------------------|-------------------------------|
| OPERATING ACTIVITIES | | | |
| Net profit for the year | | 102,806 | 4,069 |
| Adjustments for: | | | |
| Depreciation | 10 | 11,368 | 9,435 |
| Provision for impairment of loans and advances to customers | 8 | 14,250 | 6,106 |
| Gain on disposal of available for sale investments | | (81,679) | (754) |
| | | 46,745 | 18,856 |
| Changes in operating assets and liabilities: | | | |
| Reserves with UAE Central Bank | | (100,082) | (66,130) |
| Deposits with maturity greater than 90 days | | 126,019 | (55,000) |
| Due from banks | | (261,446) | (153,771) |
| Loans and advances to customers | | (452,623) | (327,623) |
| Other assets | | (16,271) | (17,200) |
| Due to banks | | 196,575 | (94,054) |
| Customers' deposits | | 1,795,981 | 1,258,946 |
| Other liabilities | | 238,437 | 33,293 |
| Net cash from operating activities | | 1,573,335 | 597,317 |
| INVESTING ACTIVITIES | | | |
| Purchase of premises and equipment | 10 | (8,157) | (7,280) |
| Purchase of investment securities | | (483,735) | (149,738) |
| Disposal of premises and equipment | | 17 | 202 |
| Proceeds from disposal of investment securities | | 434,978 | 21,051 |
| Net cash used in investing activities | | (56,897) | (135,765) |
| INCREASE IN CASH AND CASH EQUIVALENTS | | 1,516,438 | 461,552 |
| Cash and cash equivalents at 1 January | | 574,276 | 112,724 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | | 2,090,714 | 574,276 |
| Cash and cash equivalents comprise the following balance sheet amounts: | | | |
| Cash and balances with UAE Central Bank | | 1,225,406 | 297,570 |
| Due from banks | | 1,511,533 | 687,422 |
| | | 2,736,939 | 984,992 |
| Reserves with UAE Central Bank | | (221,718) | (121,636) |
| Deposits with maturity greater than 90 days | | - | (126,019) |
| Current accounts with banks | | (28,111) | (15,705) |
| Due from banks | | (396,396) | (147,356) |
| | | 2,090,714 | 574,276 |

The accompanying notes 1 to 26 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

| | <i>Share capital AED'000</i> | <i>Special reserve AED '000</i> | <i>Statutory reserve AED'000</i> | <i>Retained earnings / (accumulated deficit) AED'000</i> | <i>Cumulative changes in fair value AED'000</i> | <i>Total AED'000</i> |
|--|--------------------------------------|---|--|--|---|--------------------------|
| Balance at 1 January 2004 | 300,000 | - | - | (76,083) | | 223,917 |
| Total income and expense for the year recognised directly in equity | - | - | - | - | (16) | (16) |
| Net profit for the year | - | - | - | 4,069 | - | 4,069 |
| Total income and expenses for the year | - | - | - | 4,069 | (16) | 4,053 |
| Transfer to special reserve | - | 407 | - | (407) | - | - |
| Increase in share capital | 200,000 | - | - | - | - | 200,000 |
| Balance at 31 December 2004 | 500,000 | 407 | - | (72,421) | (16) | 427,970 |
| Total income and expense for the year recognised directly in equity | - | - | - | - | 21,758 | 21,758 |
| Net profit for the year | - | - | - | 102,806 | - | 102,806 |
| Total income and expenses for the year | - | - | - | 102,806 | 21,758 | 124,564 |
| Transfer to statutory reserve | - | - | 3,039 | (3,039) | - | - |
| Transfer to special reserve | - | 10,281 | - | (10,281) | - | - |
| Balance at 31 December 2005 | 500,000 | 10,688 | 3,039 | 17,065 | 21,742 | 552,534 |

The accompanying notes 1 to 26 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2005

1 GENERAL

Dubai Bank PJSC (the “Bank”) was incorporated in 2002 and is registered under the Commercial Companies Law Number 8 of 1984 (as amended) as a Public Joint Stock Company. It was issued a licence by the UAE Central Bank on 5 August 2002 and commenced effective operations on 22 September 2002. The address of the Bank’s registered office is P.O. Box 65555, Dubai, United Arab Emirates.

In accordance with an agreement dated 15 October 2005, Emaar Properties PJSC (the “Parent Company”) has sold 70% of its shareholding in the Bank to Dubai Financial L.L.C., a limited liability company registered in the Emirate of Dubai, United Arab Emirates. Dubai Financial L.L.C. is a wholly owned subsidiary of Dubai Investment Group L.L.C., which is wholly owned by Dubai Holding L.L.C., a limited liability Company registered in the Emirate of Dubai, United Arab Emirates. The above sale was made effective 30 June 2005. However this is conditional upon receiving UAE Central Bank Approval which was pending as of the audit report date

The Bank’s principal activity is commercial banking.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of United Arab Emirates laws. The financial statements are prepared under the historical cost convention as modified for the measurement at fair value of derivatives and investment securities other than held to maturity investments.

The accounting policies, with the exception of the adoption of the revised versions of IAS 32 and 39, are consistent with those used in the previous year.

The financial statements have been presented in UAE Dirhams which is the functional currency of the Bank.

Application of revised versions of IAS 32 and 39

The bank has applied the revised versions of IAS 32 and 39 which have become mandatory for the financial years beginning on or after 1 January 2005. The principal effects of these changes in policies are as follows:

Non-trading investments carried at fair value through profit or loss

The bank now classifies non-trading investments upon initial recognition into the following four categories:

- Held to maturity
- Available for sale
- Investments carried at fair value through profit or loss
- Investments carried at amortised cost

The bank did not reclassify any of its non-trading investment into the category “investments carried at fair value through profit or loss” and as at the period end, the bank did not have any non-trading investment classified in that category.

Investments originated by the bank

Investments in certain debt securities where the bank provided funds directly to the issuer were previously classified as “originated by the bank” and stated at amortised cost, adjusted for effective fair value hedges, less provision for impairment. In accordance with the revised IAS 39 where these are quoted in an active market they have been reclassified with effect from 1 January 2004 as held to maturity investments. There was no impact on the income statement for the current or previous periods as the fair values of such debt securities were not materially different from their carrying values.

Impairment of available for sale investment

In the case of available for sale equity investments reversal of previously recognised impairment losses are no longer recorded through the income statement but as increases in cumulative changes in fair value. There was no impact on the income statement for 2005 as there were no such reversals in that year.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2005

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Derecognition of financial assets

With effect from 1 January 2005 a financial asset (in whole or in part) is derecognised either when the bank has transferred substantially all the risks and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the asset or a proportion of the asset.

Due from banks

These are stated at cost less any amounts written off and provision for impairment.

Loans and advances

Loans and advances are stated at cost net of interest suspended and provisions for impairment. All loans and advances are recognised when cash is disbursed to borrowers.

Expenses incurred in making loans or advances are charged to the income statement in the year of disbursing these loans and advances.

Trading investments

These are initially recognised at cost and subsequently remeasured at fair value. All related realised and unrealised gains or losses are included in net trading income. Interest earned or dividends received are included in interest and dividend income respectively.

Investment securities

These are classified as follows:

- Held to maturity
- Available for sale
- Investments carried at fair value through profit or loss
- Investments carried at amortised cost

All investments are initially recognised at cost, being the fair value of the consideration given including directly attributable transaction costs.

Premiums and discounts on non-trading investments (excluding those carried at fair value through profit or loss) are amortised using the effective interest rate method and taken to interest income.

Held to maturity

Investments classified as held to maturity have fixed or determinable payments and fixed maturity and are intended to be held to maturity. They are carried at amortised cost using the effective interest method, less provision for impairment.

Available for sale

After initial recognition, investments which are classified "available for sale" are normally remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes which are not part of an effective hedging relationship, are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity, is included in the income statement for the period.

That portion of any fair value changes relating to an effective hedging relationship is recognised directly in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2005

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Investment securities - continued

Investments carried at fair value through profit or loss

Investments are classified as fair value through profit or loss if the fair value of the investment can be reliably measured and the classification as fair value through profit or loss is as per the documented strategy of the Bank. The Bank also classifies some compound debt instruments as fair value through profit and loss. Under this option the Bank fair values the entire instrument instead of separating the embedded derivative from the host contract and carrying the host at amortised cost. Investments classified as "Investments at fair value through profit or loss" upon initial recognition, are remeasured at fair value with all changes in fair value being recorded in the income statement.

Investments carried at amortised cost

Debt instruments which do not meet the definition of held to maturity and which have fixed or determinable payments but are not quoted in an active market are treated effectively as loans and receivables carried at amortised cost, (adjusted for effective hedges) less provision for impairment in value.

Fair values

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts, or similar investment vehicles are based on the last published bid price.

For financial instruments where there is no active market fair value is normally based on one of the following:

- recent transactions
- brokers' quotes
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics
- option pricing models.

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

Premises and equipment

Premises and equipment are initially recorded at cost.

Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment.

The rates of depreciation are based upon the following estimated useful lives:

- | | |
|--|------------|
| • Furniture, fixtures and office equipment | 2-10 years |
| • Computer hardware and software | 3-5 years |
| • Motor vehicles | 3 years |

Costs associated with maintaining computer software programs are recognised as an expense when incurred. However, expenditure that enhances or extends the benefit of computer software programs beyond their original specifications and lives is capitalised.

Capital work-in-progress is not depreciated.

The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Deposits

All money market and customer deposits are carried at cost, less amounts repaid.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2005

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Employees' end of service benefits

The Bank provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour Laws.

With respect to its national employees, the Bank makes contributions to the National Pension and Social Security scheme calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Derivative

Derivatives are stated at fair value.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows of a recognised asset or liability or a forecasted transaction.

In relation to effective fair value hedges any gain or loss from re-measuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the income statement.

In relation to effective cash flow hedges, the gain or loss on the hedging instrument is recognised initially in equity and either transferred to the income statement in the period in which the hedged transaction impacts the income statement, or included as part of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Bank in the balance sheet.

Offsetting

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2005

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition

Interest receivable and payable is recognised for all interest bearing instruments on an accrual basis using the effective yield method based on the actual amounts disbursed. The recognition of interest income is suspended when loans become impaired.

Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value. Fees and commissions receivable or payable are recognised as the services are provided.

Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into UAE Dirhams at middle market rates of exchange ruling at the balance sheet date. Any resultant gains and losses are taken to the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise balances with maturities of less than 90 days from the date of acquisition including cash and balances with U.A.E Central Bank, deposits with banks and other financial institutions.

Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, an impairment loss is recognised in the income statement.

Impairment is determined as follows:

- (a) for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate.
- (b) for assets carried at fair value, impairment is the difference between cost and fair value.
- (c) for assets carried at cost, impairment is based on present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

For available-for-sale equity investments reversals of impairment losses are recorded as increases in cumulative changes in fair value through equity.

In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

Trade and settlement date accounting

All regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to or received from the counterparty.

2 a SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Bank's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

Classification of investments

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2005

2 a SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES - continued

Classification of investments-continued

Classification of investments as fair value through profit or loss depends on how management monitor the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through profit or loss.

All other investments are classified as available for sale.

Impairment of investments

The Bank treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the Bank evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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 losses on loans and advances

The Bank reviews its problem loans and advances on a quarterly basis to assess whether a provision for impairment should be recorded in the income statement. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on loans and advances

In addition to specific provisions against individually significant loans and advances, the Bank also makes a collective impairment provision against loans and advances which although not specifically identified as requiring a specific provision have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grade of the loan since it was granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

These internal grading take into consideration factors such as any deterioration in country risk, industry, technological obsolescence as well as identified structural weaknesses or deterioration in cash flows.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same; or
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined, and as a result investments with a carrying amount of AED 48,808 thousand (2004: AED 12,933 thousand) are carried at cost. Management believe that the fair value of these investments is not materially different from their carrying values. The Bank calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2005

3 OTHER INCOME

| | <i>2005</i> <i>AED'000</i> | <i>2004</i> <i>AED'000</i> |
|----------------------------|-------------------------------|-------------------------------|
| Fees and commission income | 51,504 | 32,049 |
| Foreign exchange gains | 12,731 | 7,693 |
| | <u>64,235</u> | <u>39,742</u> |

4 GENERAL AND ADMINISTRATIVE EXPENSES

| | <i>2005</i> <i>AED'000</i> | <i>2004</i> <i>AED'000</i> |
|--------------------------------------|-------------------------------|-------------------------------|
| Staff costs | 79,200 | 50,389 |
| Premises and related costs | 9,635 | 5,239 |
| Technology support and related costs | 8,183 | 7,366 |
| Depreciation (note 10) | 11,368 | 9,435 |
| Others | 44,474 | 28,433 |
| | <u>152,860</u> | <u>100,862</u> |

5 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of potential ordinary shares to ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computation:

| | <i>2005</i> <i>AED'000</i> | <i>2004</i> <i>AED'000</i> |
|--|-------------------------------|-------------------------------|
| Net profit for the year | 102,806 | 4,069 |
| Weighted average number of ordinary shares | 50,000,000 | 37,397,260 |
| Effect of proposed increase in capital | - | 12,602,740 |
| | <u>50,000,000</u> | <u>50,000,000</u> |
| Basic earnings per share | <u>2.06</u> | <u>0.11</u> |
| Diluted earnings per share | <u>2.06</u> | <u>0.08</u> |

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2005

6 CASH AND BALANCES WITH UAE CENTRAL BANK

| | <i>2005</i> <i>AED'000</i> | <i>2004</i> <i>AED'000</i> |
|---------------------------------|-------------------------------|-------------------------------|
| Cash on hand | 30,206 | 18,851 |
| Balances with UAE Central Bank: | | |
| - Current account | 33,482 | 42,083 |
| - Cash reserve requirements | 221,718 | 121,636 |
| - Certificates of deposit | 940,000 | 115,000 |
| | <u>1,225,406</u> | <u>297,570</u> |

The reserve requirements, which are all kept with the UAE Central Bank in UAE Dirhams and US Dollars, cannot be withdrawn without the UAE Central Bank's approval. The level of reserves required changes every month in accordance with the UAE Central Bank directives.

7 DUE FROM BANKS

| | <i>2005</i> <i>AED'000</i> | <i>2004</i> <i>AED'000</i> |
|-----------------------------|-------------------------------|-------------------------------|
| Current accounts | 28,111 | 15,705 |
| Short term placements | 1,087,026 | 513,342 |
| Placements more than 1 year | - | 11,019 |
| Loans and advances | 396,396 | 147,356 |
| | <u>1,511,533</u> | <u>687,422</u> |

Short term placements earn interest at market rates. Three banks account for 66% of the short term placements with banks at 31 December 2005 (2004: 51%).

8 LOANS AND ADVANCES TO CUSTOMERS

| | <i>2005</i> <i>AED'000</i> | <i>2004</i> <i>AED'000</i> |
|--|-------------------------------|-------------------------------|
| The composition of the loans and advances portfolio is as follows: | | |
| (a) By type: | | |
| Corporate loans | 860,887 | 617,162 |
| Consumer loans | 761,077 | 552,902 |
| Others | 21,776 | 21,506 |
| | <u>1,643,740</u> | <u>1,191,570</u> |
| Gross amount of loans and advances | 1,643,740 | 1,191,570 |
| Less: Provisions for impairment of loans and advances | (22,466) | (8,669) |
| | <u>1,621,274</u> | <u>1,182,901</u> |

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2005

8 LOANS AND ADVANCES TO CUSTOMERS - continued

| | <i>2005</i> <i>AED'000</i> | <i>2004</i> <i>AED'000</i> |
|----------------------------------|-------------------------------|-------------------------------|
| (b) By economic sector | | |
| Trade and manufacturing | 518,424 | 319,507 |
| Banks and financial institutions | 62,434 | 59,830 |
| Construction and real estate | 96,982 | 113,867 |
| Personal | 840,014 | 567,224 |
| Others | 103,420 | 122,473 |
| | <u>1,621,274</u> | <u>1,182,901</u> |
| (c) By geographical area | | |
| Within UAE | 1,529,848 | 1,074,384 |
| Middle East, except UAE | 14,430 | 35,057 |
| Others | 76,996 | 73,460 |
| | <u>1,621,274</u> | <u>1,182,901</u> |

Loans and advances in the balance sheet are stated net of interest in suspense and provisions. The movement in provisions during the year is as follows:

| | <i>2005</i> <i>AED'000</i> | <i>2004</i> <i>AED'000</i> |
|--------------------------------------|-------------------------------|-------------------------------|
| Balance at 1 January | <u>8,669</u> | <u>2,563</u> |
| Provided for the year | 15,618 | 7,050 |
| Released during the year | (1,368) | (944) |
| Charged to the income statement, net | 14,250 | 6,106 |
| Written off during the year | (453) | - |
| Balance at 31 December | <u>22,466</u> | <u>8,669</u> |

At 31 December 2005, the gross amount of loans and advances on which interest is not being accrued or where interest is suspended amounted to AED 21,521 thousand (2004: AED 6,143 thousand).

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2005

9 INVESTMENT SECURITIES

| | <i>2005</i> <i>AED'000</i> | <i>2004</i> <i>AED'000</i> |
|----------------------------------|-------------------------------|-------------------------------|
| <i>Held to maturity – Quoted</i> | | |
| Government bonds | 60,000 | 60,000 |
| <i>Available for sale</i> | | |
| Quoted | | |
| Debt securities | 109,635 | 109,062 |
| Equities | 68,448 | 7,430 |
| | 178,083 | 116,492 |
| Unquoted | | |
| Debt securities | 80,209 | 7,346 |
| Equities | 23,327 | 5,587 |
| | 103,536 | 12,933 |
| | 341,619 | 189,425 |
| Analysis of debt instruments: | | |
| Fixed rate | 70,799 | 67,254 |
| Floating rate | 179,045 | 109,154 |
| | 249,844 | 176,408 |

Quoted investments include an amount of AED 7,879 thousand (2004: AED 7,430 thousand) placed with a fund manager.

Unquoted investments amounting to AED 48,808 thousand (2004: AED 12,933 thousand) are stated at cost as there are no reliable means of estimating the fair value.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2005

10 PREMISES AND EQUIPMENT

| | <i>Furniture, fixtures and office equipment AED'000</i> | <i>Computer hardware and software AED'000</i> | <i>Motor vehicles AED'000</i> | <i>Capital work-in-progress AED'000</i> | <i>Total AED'000</i> |
|---------------------------|---|---|---------------------------------------|---|--------------------------|
| Cost: | | | | | |
| At 1 January 2005 | 18,447 | 32,010 | 329 | 4,166 | 54,952 |
| Additions | 1,558 | 3,609 | - | 2,990 | 8,157 |
| Transfers | 1,429 | 2,404 | - | (3,833) | - |
| Disposals | - | (28) | - | - | (28) |
| At 31 December 2005 | 21,434 | 37,995 | 329 | 3,323 | 63,081 |
| Accumulated depreciation: | | | | | |
| At 1 January 2005 | 4,230 | 11,736 | 110 | - | 16,076 |
| Charge for the year | 3,687 | 7,612 | 69 | - | 11,368 |
| Relating to disposals | - | (11) | - | - | (11) |
| At 31 December 2005 | 7,917 | 19,337 | 179 | - | 27,433 |
| Net book value: | | | | | |
| At 31 December 2005 | 13,517 | 18,658 | 150 | 3,323 | 35,648 |
| At 31 December 2004 | 14,217 | 20,274 | 219 | 4,166 | 38,876 |

11 OTHER ASSETS

| | <i>2005 AED'000</i> | <i>2004 AED'000</i> |
|------------------------------------|-------------------------|-------------------------|
| Interest receivable | 15,545 | 8,918 |
| Sundry debtors and prepayments | 9,275 | 11,961 |
| Positive fair value of derivatives | 13,973 | 3,798 |
| Other | 6,951 | 4,796 |
| | 45,744 | 29,473 |

12 CUSTOMERS' DEPOSITS

| | <i>2005 AED'000</i> | <i>2004 AED'000</i> |
|------------------|-------------------------|-------------------------|
| Demand accounts | 1,324,987 | 1,156,155 |
| Savings accounts | 206,809 | 126,875 |
| Deposit accounts | 2,185,034 | 637,819 |
| | 3,716,830 | 1,920,849 |

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2005

13 OTHER LIABILITIES

| | <i>2005</i> <i>AED'000</i> | <i>2004</i> <i>AED'000</i> |
|--|-------------------------------|-------------------------------|
| Interest payable | 9,781 | 4,294 |
| Staff related provisions | 19,897 | 9,884 |
| Payables towards premises and equipment acquisitions | 6,735 | 6,735 |
| Collections on behalf of fund managers | - | 8,085 |
| Accrued expenses | 22,495 | 8,615 |
| Negative fair value of derivatives | 13,864 | 3,188 |
| Credit linked note | 7,346 | 7,346 |
| Refund Payable towards initial public offering collection of a Non UAE entity | 209,502 | - |
| Other | 20,117 | 23,153 |
| | <u>309,737</u> | <u>71,300</u> |

Other liabilities include an amount of AED 7,346 thousand (2004: AED 7,346 thousand) representing a credit linked note which has been issued by the bank. The note has a remaining maturity of 5.25 years (2004: 6.25 years) from the balance sheet date.

14 SHARE CAPITAL AND RESERVES

Share capital

The authorised, issued and fully paid share capital of the Bank comprises 50,000,000 shares (2004: 50,000,000) of AED 10 each.

Special reserve

In accordance with its Articles of Association and Article 82 of Union Law no. 10 of 1980, the Bank allocates 10% of the annual net profit to a special reserve until such reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

Statutory reserve

In accordance with Article 192 of the Commercial Companies Law Number 8 of 1984 (as amended) and the Articles of Association of the Bank, 10% of the profit for the year, after offsetting accumulated losses brought forward, has been transferred to statutory reserve. The Bank may resolve to discontinue such transfers when the reserve equals 50% of the paid up share capital.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2005

15 DERIVATIVES

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. Derivative financial instruments include forwards, futures, swaps and options. During the year, the Bank only entered into forward foreign exchange contracts, forward rate agreements and foreign exchange options.

The table below shows the positive and negative fair values of derivatives financial instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are not indicative of either market or credit risk.

| 31 December | 2005 | | | 2004 | | |
|--------------------------------------|--|--|--|--|--|--|
| | <i>Positive fair value AED'000</i> | <i>Negative fair value AED'000</i> | <i>Notional amount AED'000</i> | <i>Positive fair value AED'000</i> | <i>Negative fair value AED'000</i> | <i>Notional amount AED'000</i> |
| <i>Derivatives held for trading:</i> | | | | | | |
| Forward foreign exchange contracts | 6,033 | (5,917) | 1,045,000 | 2,817 | 2,518 | 184,981 |
| Forward rate agreements | 849 | (855) | 73,460 | 635 | 632 | 203,567 |
| Foreign exchange options | 7,091 | (7,092) | 756,535 | 346 | 38 | 198,242 |
| | <u>13,973</u> | <u>(13,864)</u> | <u>1,874,995</u> | <u>3,798</u> | <u>3,188</u> | <u>586,790</u> |

All forward foreign exchange commitments and forward rate agreements outstanding at the balance sheet date expire within six months of the balance sheet date. The options outstanding at the balance sheet date expire within a year of the balance sheet date.

Derivative product types

Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Forward rate agreements are effectively tailor made interest rate futures that fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument includes currency at a fixed price, either at a fixed future date or at any time within a specified period.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. Approximately 70% of the bank's derivative contracts are entered into with other financial institutions and less than 30% of the fair value of favourable contracts are with any individual counterparty at the balance sheet date.

Purpose of derivatives

In the normal course of meeting the needs of the Bank's customers, the Bank is a party to forward foreign exchange contracts, forward rate agreements and forward exchange options. In addition, as part of its asset and liability management the Bank uses forward foreign exchange contracts for hedging purposes in order to reduce its own exposure to currency risks. This is achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures. Since strategic hedging does not qualify for special hedge accounting, such forward foreign exchange contracts are accounted for as trading instruments.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2005

16 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

Credit-related commitments include commitments to extend credit, letters of credit, guarantees and acceptances, which are designed to meet the requirements of the Bank's customers.

Letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses, and normally require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

The Bank has the following credit related commitments:

| | <i>2005</i> <i>AED'000</i> | <i>2004</i> <i>AED'000</i> |
|--|-------------------------------|-------------------------------|
| <i>Contingent liabilities:</i> | | |
| Letters of credit | 205,382 | 175,585 |
| Guarantees | 237,248 | 211,954 |
| Acceptances | 55,667 | 79,938 |
| | 498,297 | 467,477 |
| <i>Commitments:</i> | | |
| Irrevocable commitments to extend credit | 593,129 | 317,386 |
| <i>Capital commitments:</i> | | |
| Commitments in respect of premises and equipment purchases | 1,440 | 3,544 |

17 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

The Bank enters into transactions with its major shareholders, directors, senior officers and their related concerns in the ordinary course of business at commercial interest and commission rates. All loans and advances to related parties are performing advances and are free of any provision for possible loan losses.

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

| | <i>2005</i> | | | <i>2004</i> | | |
|-------------------------------------|--------------------|----------------|----------------|--------------------|----------------|----------------|
| | <i>Major</i> | <i>Other</i> | <i>Total</i> | <i>Major</i> | <i>Other</i> | <i>Total</i> |
| | <i>shareholder</i> | <i>related</i> | <i>AED'000</i> | <i>shareholder</i> | <i>related</i> | <i>AED'000</i> |
| | <i>AED'000</i> | <i>parties</i> | <i>AED'000</i> | <i>AED'000</i> | <i>parties</i> | <i>AED'000</i> |
| Loans and advances to customers | - | 10,805 | 10,805 | - | 8,778 | 8,778 |
| Customers' deposits | 942,534 | 17,969 | 960,503 | 443,330 | 96,035 | 539,365 |
| Commitments | 328 | 9,418 | 9,746 | 328 | 8,515 | 8,843 |
| Interest and other income | - | 430 | 430 | 113 | 502 | 615 |
| Interest expenses | 6,283 | 68 | 6,351 | 2,104 | 63 | 2,167 |
| General and administrative expenses | 3,842 | 4,180 | 8,022 | 548 | 5,295 | 5,843 |

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2005

17 RELATED PARTY TRANSACTIONS - continued

Compensation of the key management personnel is as follows:

| | <i>2005</i> <i>AED'000</i> | <i>2004</i> <i>AED'000</i> |
|---|-------------------------------|-------------------------------|
| Short-term employee benefits | 15,080 | 8,446 |
| Termination benefits | 304 | 212 |
| Total compensation paid to key management personnel | 15,384 | 8,658 |

18 SEGMENTAL INFORMATION

Primary segment information

For management purposes the Bank is organised into two major business segments:

Commercial banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers, handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities, funds transfer facilities and safe house facilities;

Treasury - principally providing money market, trading and treasury services, as well as the management of the Bank's funding operations by use of placements with and acceptances from other banks, through treasury and wholesale banking.

These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged / credited to business segments based on a pool rate which approximates the marginal cost of funds.

Segmental information for the year ended 31 December was as follows:

| | <i>2005</i> | <i>2005</i> | <i>2005</i> | <i>2004</i> | <i>2004</i> | <i>2004</i> |
|--------------------------------|-------------------|--------------------|------------------|-------------------|-----------------|----------------|
| | <i>Commercial</i> | <i>Treasury</i> | <i>Total</i> | <i>Commercial</i> | <i>Treasury</i> | <i>Total</i> |
| | <i>banking</i> | <i>and capital</i> | <i>AED'000</i> | <i>banking</i> | <i>markets</i> | <i>AED'000</i> |
| | <i>AED'000</i> | <i>AED'000</i> | <i>AED'000</i> | <i>AED'000</i> | <i>AED'000</i> | <i>AED'000</i> |
| Gross income | 201,159 | 127,649 | 328,808 | 103,959 | 23,510 | 127,469 |
| Net profit (loss) for the year | 8,069 | 94,737 | 102,806 | (12,610) | 16,679 | 4,069 |
| Segment assets | 2,360,555 | 2,420,669 | 4,781,224 | 1,559,670 | 865,997 | 2,425,667 |
| Segment liabilities | 3,243,628 | 985,062 | 4,228,690 | 1,997,697 | - | 1,997,697 |
| Capital expenditure | 8,103 | 54 | 8,157 | 4,853 | 2,427 | 7,280 |
| Depreciation expense | 10,806 | 562 | 11,368 | 9,359 | 76 | 9,435 |

Secondary segment information

The Bank operates in only one geographic area, namely the United Arab Emirates. Accordingly, no geographical segmental information is given.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2005

19 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank manages credit risk by setting limits for individual borrowers and groups of borrowers, and for industry segments. The Bank also monitors credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Bank obtains security where appropriate, and limits the duration of exposures.

For details of the composition of the loans and advances portfolio refer to note 8.

Credit risk in respect of derivative financial instruments is limited to those with positive fair value.

20 CONCENTRATIONS

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

The distribution of assets, liabilities and off-balance sheet items by geographic region and industry sector was as follows:

| | 2005 | | | 2004 | | |
|---------------------------------|---------------------------------|---|--|---------------------------------|---|--|
| | <i>Assets</i> <i>AED'000</i> | <i>Liabilities and equity</i> <i>AED'000</i> | <i>Off balance sheet items</i> <i>AED'000</i> | <i>Assets</i> <i>AED'000</i> | <i>Liabilities and equity</i> <i>AED'000</i> | <i>Off balance sheet items</i> <i>AED'000</i> |
| Geographic region: | | | | | | |
| Domestic (UAE) | 3,435,638 | 4,629,470 | 388,365 | 1,972,031 | 2,363,802 | 467,477 |
| Other Middle East countries | 796,264 | 9,194 | 109,444 | 258,883 | | - |
| Rest of the world | 549,322 | 142,560 | 488 | 194,753 | 61,865 | - |
| TOTAL | 4,781,224 | 4,781,224 | 498,297 | 2,425,667 | 2,425,667 | 467,477 |
| Industry sector: | | | | | | |
| Personal | 840,014 | 1,114,340 | | 567,224 | 686,515 | 5,510 |
| Trading and manufacturing | 518,424 | 43,886 | 267,981 | 319,517 | | 235,318 |
| Bank and Financial institutions | 2,816,533 | 1,150,750 | 26,957 | 747,252 | 5,548 | 14,186 |
| Construction and real estate | 96,982 | 960,143 | 154,511 | 113,867 | | 163,965 |
| Other | 509,271 | 1,512,105 | 48,848 | 677,807 | 1,733,604 | 48,498 |
| TOTAL | 4,781,224 | 4,781,224 | 498,297 | 2,425,667 | 2,425,667 | 467,477 |

21 MARKET RISK

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Bank has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Bank's management.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2005

22 INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities.

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

The Bank's interest rate sensitivity position as at 31 December 2005, based on the contractual repricing or maturity dates, whichever is earlier, is as follows:

| | <i>Effective interest rate%</i> | <i>Up to three months AED'000</i> | <i>Three to six months AED'000</i> | <i>Six months to one year AED'000</i> | <i>One to five years AED'000</i> | <i>Over 5 years AED'000</i> | <i>Non interest bearing items AED'000</i> | <i>Total AED'000</i> |
|--|---------------------------------|-----------------------------------|------------------------------------|---------------------------------------|----------------------------------|-----------------------------|---|----------------------|
| ASSETS | | | | | | | | |
| Cash and balances with the Central Bank | 1.5-4.5% | 940,000 | - | - | - | - | 285,406 | 1,225,406 |
| Due from banks | 4-8% | 1,350,102 | 127,691 | 12,179 | 21,561 | - | - | 1,511,533 |
| Loans and advances to customers | 6-10% | 843,104 | 228,630 | 188,844 | 358,156 | 2,540 | - | 1,621,274 |
| Investment securities | 3-6% | 95,038 | 118,443 | 36,363 | - | - | 91,775 | 341,619 |
| Premises and equipment | | - | - | - | - | - | 35,648 | 35,648 |
| Other assets | | - | - | - | - | - | 45,744 | 45,744 |
| Total assets | | 3,228,244 | 474,764 | 237,386 | 379,717 | 2,540 | 458,573 | 4,781,224 |
| LIABILITIES | | | | | | | | |
| Due to banks | 2.35-4.4% | 202,123 | - | - | - | - | - | 202,123 |
| Customer deposits | 0.5-4.5% | 2,850,056 | 10,768 | 66,176 | 2,353 | - | 787,477 | 3,716,830 |
| Other liabilities | | - | 7,347 | - | - | - | 302,390 | 309,737 |
| Shareholders' funds | | - | - | - | - | - | 552,534 | 552,534 |
| Total liabilities and shareholders' funds | | 3,052,179 | 18,115 | 66,176 | 2,353 | - | 1,642,401 | 4,781,224 |
| Total interest rate sensitivity gap | | 176,065 | 456,649 | 171,210 | 377,364 | 2,540 | (1,183,828) | |
| Cumulative interest rate sensitivity gap | | 176,065 | 632,714 | 803,924 | 1,181,288 | 1,183,828 | - | |

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2005

22 INTEREST RATE RISK – continued

31 December 2004:

| | <i>Effective interest rate%</i> | <i>Up to three months AED'000</i> | <i>Three to six months AED'000</i> | <i>Six months to one year AED'000</i> | <i>One to five years AED'000</i> | <i>Over 5 years AED'000</i> | <i>Non interest bearing items AED'000</i> | <i>Total AED'000</i> |
|---|---|---|--|---|--|-------------------------------------|---|--------------------------|
| ASSETS | | | | | | | | |
| Cash and balances with the Central Bank | 1.5-1.75% | 20,000 | - | 95,000 | - | - | 182,570 | 297,570 |
| Due from banks | 0.5-2.53% | 582,671 | 57,510 | 20,517 | 11,019 | - | 15,705 | 687,422 |
| Loans and advances to customers | 6-10% | 507,778 | 157,468 | 96,588 | 385,750 | 35,317 | - | 1,182,901 |
| Investment securities | 3% | 51,422 | 57,732 | 7,430 | 67,254 | - | 5,587 | 189,425 |
| Premises and equipment | | - | - | - | - | - | 38,876 | 38,876 |
| Other assets | | - | - | - | - | - | 29,473 | 29,473 |
| Total assets | | 1,161,871 | 272,710 | 219,535 | 464,023 | 35,317 | 272,211 | 2,425,667 |
| LIABILITIES | | | | | | | | |
| Due to banks | 1 – 2% | - | - | - | - | - | 5,548 | 5,548 |
| Customer deposits | 0.5 - 2.5% | 1,343,581 | 60,645 | 45,233 | 5,096 | - | 466,294 | 1,920,849 |
| Other liabilities | | - | 7,346 | - | - | - | 63,954 | 71,300 |
| Equity | | - | - | - | - | - | 427,970 | 427,970 |
| Total liabilities and equity | | 1,343,581 | 67,991 | 45,233 | 5,096 | - | 963,766 | 2,425,667 |
| Total interest rate sensitivity gap | | (181,710) | 204,719 | 174,302 | 458,927 | 35,317 | (691,555) | |
| Cumulative interest rate sensitivity gap | | (181,710) | 23,009 | 197,311 | 656,238 | 691,555 | - | |

23 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Bank had a long position in US Dollars of AED equivalent of 160 million as at 31 December 2005 (2004: AED 185 million). There were no significant open positions in any other currency. The UAE Dirham/ US Dollar dealing rate fixed by the UAE Central Bank has remained virtually unchanged since November 1980.

24 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The table below summarizes the maturity profile of the Bank's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2005

24 LIQUIDITY RISK – continued

The maturity profile of the assets and liabilities at 31 December 2005 was as follows:

| | <i>Total</i> <i>AED</i> <i>'000</i> | <i>Less than</i> <i>three</i> <i>months</i> <i>AED</i> <i>'000</i> | <i>three months</i> <i>to six months</i> <i>AED</i> <i>'000</i> | <i>six months</i> <i>to one year</i> <i>AED</i> <i>'000</i> | <i>Over one</i> <i>year</i> <i>AED</i> <i>'000</i> | <i>Items</i> <i>with no</i> <i>maturity</i> <i>AED</i> <i>'000</i> |
|-----------------------------------|---|--|--|--|---|--|
| ASSETS | | | | | | |
| Cash and balances at Central Bank | 1,225,406 | 1,225,406 | - | - | - | - |
| Due from banks | 1,511,533 | 1,165,730 | 101,246 | 123,091 | 121,466 | - |
| Loans and advances to customers | 1,621,274 | 557,924 | 245,369 | 206,452 | 611,529 | - |
| Investment securities | 341,619 | 91,775 | - | 21,644 | 228,200 | - |
| Premises and equipment | 35,648 | - | - | - | - | 35,648 |
| Other assets | 45,744 | 45,744 | - | - | - | - |
| Total | 4,781,224 | 3,086,579 | 346,615 | 351,187 | 961,195 | 35,648 |
| LIABILITIES AND EQUITY | | | | | | |
| Due to banks | 202,123 | 202,123 | - | - | - | - |
| Customers' deposits | 3,716,830 | 3,637,533 | 10,768 | 66,176 | 2,353 | - |
| Other liabilities | 309,737 | 302,390 | - | - | 7,347 | - |
| Equity | 552,534 | - | - | - | - | 552,534 |
| Total | 4,781,224 | 4,142,046 | 10,768 | 66,176 | 9,700 | 552,534 |

31 December 2004:

| | <i>Total</i> <i>AED</i> <i>'000</i> | <i>Less than</i> <i>three</i> <i>months</i> <i>AED</i> <i>'000</i> | <i>three months</i> <i>to six months</i> <i>AED</i> <i>'000</i> | <i>six months</i> <i>to one year</i> <i>AED</i> <i>'000</i> | <i>Over one</i> <i>year</i> <i>AED</i> <i>'000</i> | <i>Items</i> <i>with no</i> <i>maturity</i> <i>AED</i> <i>'000</i> |
|-----------------------------------|---|--|--|--|---|--|
| ASSETS | | | | | | |
| Cash and balances at Central Bank | 297,570 | 183,719 | - | 95,000 | - | 18,851 |
| Due from banks | 687,422 | 598,376 | 57,510 | 20,517 | 11,019 | - |
| Loans and advances to customers | 1,182,901 | 475,519 | 98,549 | 77,719 | 531,114 | - |
| Investment securities | 189,425 | 5,587 | - | 7,430 | 176,408 | - |
| Premises and equipment | 38,876 | - | - | - | - | 38,876 |
| Other assets | 29,473 | 29,473 | - | - | - | - |
| Total | 2,425,667 | 1,292,674 | 156,059 | 200,666 | 718,541 | 57,727 |
| LIABILITIES AND EQUITY | | | | | | |
| Due to banks | 5,548 | 5,548 | - | - | - | - |
| Customers' deposits | 1,920,849 | 1,809,875 | 60,645 | 45,233 | 5,096 | - |
| Other liabilities | 71,300 | 63,954 | - | - | 7,346 | - |
| Equity | 427,970 | - | - | - | - | 427,970 |
| Total | 2,425,667 | 1,879,377 | 60,645 | 45,233 | 12,442 | 427,970 |

Maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. In particular, investment securities with contractual maturity dates over one year comprise quoted securities that can be liquidated in less than three months.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2005

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences therefore can arise between book values under the historical cost method and fair value estimates. The fair value of the Bank's financial instruments is not materially different from the carrying value at 31 December 2005, since these are either short-term in nature, valued using quoted market prices or in the case of loans and advances and deposits and non-trading investments, frequently repriced.

The fair value of the Bank's off-balance sheet financial instruments is shown in note 15.

26 COMPARATIVE INFORMATION

Gain on sale of available for sale investments has been reclassified from 'other income' and disclosed separately in the income statement. Comparative amounts, totalling AED 754 thousand, have been reclassified accordingly.

In addition, loans and advances to banks have been reclassified from 'loans and advances to customers' to 'due from banks'. Comparative amounts, totalling AED 147,356 thousand, have been reclassified accordingly.

These changes have been made to improve the quality of information presented.

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