Dar Al-Maal Al-Islami Trust

Annual Report

2012

Registered Office:

Dar Al-Maal Al-Islami Trust
10 Deveaux Street
P.O. Box N-9935
Nassau
Commonwealth of the Bahamas

Correspondence Address:

DMI Administrative Services S.A.
84, Avenue Louis-Casaï
P.O. Box 64
1216 Cointrin/Geneva
Switzerland

Phone: (41 22) 791 71 11
Fax: (41 22) 791 72 98 / 9
E-mail: info@dmisa.com

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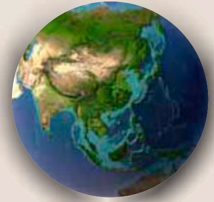

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Board of Supervisors and Religious Board

Board of Supervisors

Mohamed Al Faisal Al Saud,
Chairman

Abdelaziz Abdallah Alfadda

Mohamed A. Abdelkarim El Kheriji

Ebrahim Khalifa Al Khalifa

Amr Mohamed Al Faisal Al Saud

Khalid Omar Abdel Rahman Azzam

Ibrahim El Tayeb Elrayah

Mohammed Abdullah Abdulaziz
Alankari

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

Religious Board

Nasr Farid Mohamed Wasel,
Chairman

Halil Gonenc

Osama Mohamed Ali

Dar Al-Maal Al-Islami Trust

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

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

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

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

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

Dear Participants,

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

On behalf of the Board of Supervisors, I am pleased to present the thirty first annual report of Dar Al-Maal Al-Islami Trust for the financial year ended 31 December 2012.

Four years after the onset of the global financial crisis, the world economy continues to struggle. Following a marked improvement in the summer, certain countries have since fallen into a double dip recession. Emerging markets are still seen as the main driver for global growth while the high income countries are experiencing deceleration. Optimism remains with the commitments of the governments of the developed countries and their central banks, the economic recovery, however, remains fragile.

Chairman's Message

In spite of the world's economic woes, the DMI Group has remained steadfast in its vision throughout 2012 by seizing new business opportunities where possible, strengthening cost effective operations and maintaining operational liquidity levels, which enabled the Group to protect shareholders' value. The DMI Group is continually monitoring the economic developments on the world stage and is poised to take whatever action is required to position itself successfully in the Islamic banking world of tomorrow.

The Group recorded a net profit in 2012 of $4.0 million compared to a net loss of $30.9 million for 2011. Trust capital amounted to $490.6 million at 31 December 2012 as compared to $460.3 million at the

end of 2011. As a result, the value of each participation unit rose to $124.03 a 6.6% increase over last year's value of $116.36. In view of this, the Board of Supervisors has resolved not to recommend a dividend in respect of the year ended 31 December 2012 at the Annual General Meeting.

shareholders will be aware that it has been our policy for a number of years to allocate a percentage of the Group's profit to a fiduciary risk reserve to cover inherent fiduciary risks which might arise in the Group's managed funds. In light of the difficult years behind us, the Board has again resolved to recommend the appropriation of an additional $20.0 million from reserves to the fiduciary reserve to reflect the increased risks. The amount of the fiduciary risk reserve of $207.5 million will be kept under review and will not be available for distribution.

Two full years have passed since Ithmaar Bank B.S.C., DMI's core subsidiary held at 53% ownership, converted to a licensed Islamic retail bank. We can now proudly look back upon this decision as we witness Islamic financing gaining global acceptance as a serious alternative to conventional western banking.

In spite of the continued hardships faced in global markets, Ithmaar Bank was able to turnaround its net operating profit before taxes and provisions to BD 12.8 million ($34.0 million) as compared to a loss in 2011 of BD 14.3 million ($37.9 million). However, the continuing weight of the carrying costs of non-core underperforming investments coupled with substantial provision charges sapped profitability, resulting in a total net loss of BD 10.1 million ($26.8 million) after tax and provisions. The balance sheet showed an encouraging 26% growth in financing assets (loans) and a 31% growth in customer funds, with the addition of 18,000 new client relationships to its customer base in 2012 alone, a 20% growth in the core bank.

To address the challenges facing the Bank, future strategy includes the sale of identified investment assets, internal cash generation through the growth of profitable business lines and raising additional capital at an opportune time in the future. Thanks to the confidence of its investors, Ithmaar's traded share price nearly doubled during the year. Ithmaar Bank now stands at the forefront prepared to take full advantage of its strengths in Islamic retail banking and aims to promote all business opportunities to generate additional shareholder value.

Faysal Bank Limited, in which the Group owns an economic interest of 35% through its ownership in Ithmaar Bank, performed commendably in the midst of an adverse economic environment, which saw the Pakistani Rupee further devalue 8% against the US dollar, acute energy shortages, political uncertainty and deteriorating social stability. FBL recorded net profit in 2012 of PKR 1,423 million ($15.2 million) after tax, an 11% increase over the prior year. The bank boasts a high credit quality rating of AA for long term investments and an A1+, high certainty of payment, for short term liquidity. FBL's total asset base growth attained a breakthrough increase of 7% amounting to PKR 313 billion ($3.2 billion) as compared to 2011. Seven additional Islamic branch offices were opened during the year bringing the geographical span to 265 (including 52 Islamic branches) in a total of 75 cities across Pakistan. Furthermore 41 ATMs were added to the network bringing the total number to 258 in the country. During 2012, the bank significantly strengthened the risk management processes and early warning systems to better respond to the negative macro-economic impact on the bank's portfolios. Following the post-merger integration with Royal Bank of Scotland Pakistan (RBS) the bank made noteworthy progress on reducing costs, mobilising core deposits and proactively managing non-performing assets. FBL is confident that future results will reflect the efforts and successful execution of the bank's strategy, which will continue to reap rewards for customers and shareholders alike.

Upholding its creditable growth record, Islamic Investment Company of the Gulf (Bahamas) Limited, DMI's wholly-owned subsidiary, delivered positive results in 2012 despite the continuing difficult and challenging market conditions. On a consolidated basis, however, it registered a first time loss of $4.6 million due to negative results in some of its subsidiaries and pre-operating expenses in its new subsidiary. Gross income increased 6% while operating expense levels remained the same as the prior year. The funds under management registered growth, albeit modest, compared to 2011 mainly due to issuing new funds and IICG's ability to provide competitive rates of return. IICG remains committed to continue to increase its clients' investments through various measures including the stabilisation of its asset portfolios by enhancing quality, generating increased income, rationalising management costs and arranging refinancing.

IICG's 73% owned subsidiary, Gulf Investors Asset Management Company (GIAMCO), a Saudi closed joint stock company registered in the Kingdom of Saudi Arabia, formally commenced business operations in July 2012. GIAMCO is licensed for business activities, which include establishing and managing investment funds and portfolios, underwriting and arranging corporate finance and providing advisory services for fund raising and custodial services for fiduciary assets. GIAMCO is comprised of three main operating divisions; Asset Management, Real Estate Trading and Development and Investment Banking, which

further includes Corporate Finance, Valuation and Advisory Services for Mergers and Acquisitions. In the first year of its operations GIAMCO has laid the necessary ground work for the launch of two Saudi funds pertaining to equity and liquidity, concluded a memorandum of understanding with a prominent real estate developer and examined potential projects, which included promising private equity and real estate opportunities. I am confident that I will have the opportunity to report further progress on its activities next year.

Despite the direct economic impact of significant social and political challenges experienced this year, Faisal Islamic Bank of Egypt, of which DMI owns 49%, observed unprecedented results. FIBE recorded net profits of EGP 632.3 million ($104 million), more than a three-fold increase over the prior year, surpassing all planned targets to increase profitability whilst maintaining minimum risk levels. Total assets increased by 17% to EGP 41.1 billion ($6.5 billion) at 31 December 2012 and total equity amounted to EGP 2,642 million ($420 million). Affirming the bank's continued ability to attract investor funds, FIBE realised a 16% increase in its savings accounts and certificates amounting to EGP 32 billion as well as a 10% gain in net investment accounts amounting to EGP 37.3 billion. Geographical presence now includes a total of 29 branch offices and 102 ATMs serving over one million account holders. 2013 promises to bring the addition of two additional branches with further refurbishment of existing offices. In keeping with the tradition of providing high service levels in retail banking, this year saw the activation of new finance and investment tools including leasing, forward sale/advance payment services and contract sale for manufacture. FIBE is pleased with the progress the bank has achieved this year and remains committed to increasing shareholder value now and in the future.

With effect from 1 January 2013, the International Accounting Standards Board has adopted the new accounting standard, IFRS 10. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements and further defines the principle of control. As a direct result of the implementation of IFRS 10 the DMI Group is now required to fully consolidate Faisal Islamic Bank of Egypt as a group subsidiary, with a 51% non-controlling interest in its 2013 group accounts. DMI has equity accounted for its 49% interest in FIBE as an associated company under IAS 28 up until now. The projected impact on the 2013 DMI Group consolidated financial statements, which will include a restatement of 2012 comparatives, can be found on page 19 of the notes to the financial statements.

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

Allah is the purveyor of success.

Mohamed Al Faisal Al Saud

Report of the Religious Board

1 January 2012 – 31 December 2012

The DMI Trust Religious Board held a meeting in Cairo, Egypt, on Tuesday 14 Jomad I, 1434H corresponding to 26 March 2013.

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

Furthermore the Religious Board reviewed the 2012 balance sheet and financial statements presented to it and after examining and discussing the same, the Religious Board considered that all DMI Group investment activities, projects and banking services undertaken during the year were in conformity with the principles of the glorious Sharia and in line with the standard contracts previously approved by the Religious Board.

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

The Board wishes further success to the DMI Group.

Allah is the purveyor of success.

Dr. Nasr Farid Mohamed Wasel
Chairman of the Religious Board

Millions of US dollars

	2003	2004	2005	2006	2007	2008	2009	2010	2011	**2012**
Net profit (loss)	14.4	18.9	28.7	52.1	50.7	12.3	(108.9)	130.2	(30.9)	4.0
Dividends	0.0	8.9	8.9	14.8	14.8	20.7	27.7	0.0	0.0	0.0
Trust capital	258	286	325	362	422	454	335	524	460	491
Return on average capital	5.7%	7.0%	9.4%	15.2%	12.9%	2.8%	(27.6)%	29.9%	(6.3)%	0.8%
Funds under management	3,759	4,204	4,762	1,856	1,906	2,296	2,508	8,589	8,098	8,355
Average number of employees	1,095	1,294	1,475	896	232	232	214	2,845	4,726*	3,978
Book value per unit	$87.12	$96.86	$109.83	$122.41	$142.88	$114.85	$84.59	$132.57	$116.36	$124.03

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

Ten-year Financial Summary

Dar Al-Maal Al-Islami Trust
2012 Annual Report

1 January 2012 – 31 December 2012

Consolidated Financial Statements

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REPORT OF THE AUDITOR

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Dar Al-Maal Al-Islami Trust and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of change in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Basis for qualified opinion

As indicated in note 16 to the consolidated financial statements, on accounting for its acquisition of a controlling stake in Ithmaar Bank B.S.C. ("Ithmaar") during the year 2010, management determined the fair value of the Group's previously held interest on the basis of an independent valuation which used an average of a peer group market analysis of similar banks listed on the Bahrain stock exchange and a discounted cash flow, adjusted for an estimated control premium. This methodology was accepted by management on the basis that it does not consider that an active market existed for the shares of Ithmaar and therefore the quoted market price was ignored. In our opinion, this valuation methodology was not in accordance with IFRS which stipulates that the most recent transaction prices should be taken into consideration as an input in the valuation model, unless it can be demonstrated that these transactions related to distressed sales. Had the quoted market price been used as an input into what we believe is an acceptable valuation methodology that market participants would consider in valuing the Group's previously held in interest in Ithmaar, this would have resulted in a valuation of US$ 483.6 million rather than US$ 587.1 million, and led to a decrease in the consolidated retained earnings in the amount of US$ 103.5 for the year ended 31 December 2012 and 2011, and a corresponding decrease in goodwill and non-controlling interests in the amounts of US$ 111.6 million and US$ 8.1 million respectively for both years.

In addition, as indicated in note 3 to the consolidated financial statements, management determined the value in use of Islamic Investment Company of the Gulf (Bahamas) Limited exceeded its carrying value as at 31 December 2012 and as such no impairment has been recognised on the related goodwill and intangible balances of US$ 32.2 million and US$ 21.4 million, respectively. In our opinion, the attached financial statements have not properly disclosed nor considered the significant uncertainty surrounding the valuation of the entity as a result of the performance of the underlying funds under management. As such, there is a significant risk that the goodwill and intangibles of a combined amount of US$ 53.6 million might be impaired.

Qualified opinion

In our opinion, except for the effects of the matters described in the Basis for qualified opinion paragraph above, the consolidated financial statements present fairly, in all material aspects, the financial position of the Group as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Ltd

Alex Astolfi

Nicolas Colledge

Geneva, 30 May 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

(Thousands of US dollars except participation units)

	Notes	2012	2011 Restated
Assets			
Cash and cash equivalents	5	875,849	785,042
Investments with Islamic institutions		119,373	120,514
Trading securities	6	81,073	64,555
Investments in financings	7	2,146,866	1,989,263
Investment securities	10	1,059,923	1,202,791
Accounts receivable	12	161,382	182,303
Current tax receivable	19	14,650	12,987
Investment property	13	385,921	393,094
Investments in associates	14	958,649	884,886
Property, plant and equipment	15	118,754	134,937
Intangible assets	16	565,212	584,845
Non-current assets held for sale	17	26,856	23,146
Deferred tax assets	19	54,782	60,911
Total assets		**6,569,290**	**6,439,274**
Liabilities			
Accounts payable	18	787,299	775,652
Current tax payable	19	260	903
Massaref accounts	20	4,671,276	4,589,812
Provisions	21	73,000	73,000
Non-current liabilities held for sale	17	-	3
Deferred tax liabilities	19	8,222	4,892
Total liabilities		**5,540,057**	**5,444,262**
Equity			
Trust capital attributable to equity participants			
Capital	41	390,316	390,316
Reserves		100,304	69,959
Total trust capital		**490,620**	**460,275**
Non-controlling interests	32	538,613	534,737
Total equity		**1,029,233**	**995,012**
Total equity and liabilities		**6,569,290**	**6,439,274**
Number of trust capital participation units		3,955,606	3,955,606
Book value per unit		$124.03	$116.36

The notes on pages 18 to 75 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER

(Thousands of US dollars)

	Notes	2012	2011 Restated
Income			
Fund management and services	33	43,813	26,967
Income from investments with Islamic institutions		(15,302)	11,997
Net trading income	23	35,734	24,406
Income from investments in financings	24	226,624	253,215
Fee and commission income	25	44,161	50,870
Gains/(losses) from investment securities	10	60,428	69,081
Dividend income	26	13,159	9,705
Other income	27	(1,083)	3,636
		407,534	449,877
Distribution to Massaref account holders		(250,656)	(296,727)
Operating income		156,878	153,150
Expenses			
Staff costs	28	(113,483)	(110,416)
General and administrative expenses	29	(86,455)	(90,701)
Depreciation and amortisation	15,16	(29,374)	(47,726)
Exchange (loss)/gain		(2,204)	863
Provisions	21	(14,512)	18,467
Total expenses		(246,028)	(229,513)
Operating (loss)		(89,150)	(76,363)
Share of profit of associated companies	14	78,356	25,776
(Loss)/profit before income taxes		(10,794)	(50,587)
Taxes	31	(1,259)	(170)
(Loss)/profit after income taxes		**(12,053)**	**(50,757)**
Attributable to:			
Equity participants		3,984	(30,896)
Non-controlling interests	32	(16,037)	(19,861)
		(12,053)	**(50,757)**

The notes on pages 18 to 75 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER

(Thousands of US dollars)

	2012		2011	
	Equity holders	Non-controlling interests	Equity holders	Non-controlling interests
			Restated	
Profit/(loss) after income taxes	**3,984**	**(16,037)**	**(30,896)**	**(19,861)**
Movements in reserves due to change in ownership of a subsidiary	(162)	-	-	(2,203)
Movements in reserves due to acquisition of a subsidiary	-	-	(356)	8,589
Movements in fair value reserves of associated companies	19,887	8,711	(19,054)	(3,849)
Movements in currency translation of associated companies	(8,935)	-	(6,577)	-
Movement in fair value of available-for-sale investments	23,071	25,876	(2,757)	(3,688)
Movements in fair value reserves due to disposal of available-for-sale investments in a subsidiary	(3,251)	(5,914)	(651)	(1,373)
Transfer to income statement due to impairment of available-for-sale investments	3,055	5,556	589	1,099
Movements in deferred tax of available-for-sale investments	(2,094)	(3,809)	697	1,299
Foreign currency translation differences for foreign entities	(5,210)	(10,507)	(5,105)	(8,195)
Other comprehensive income	26,361	19,913	(33,214)	(8,321)
Total comprehensive income/(loss)	**30,345**	**3,876**	**(64,110)**	**(28,182)**

The notes on pages 18 to 75 form an integral part of these consolidated financial statements.

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

(Thousands of US dollars)

		Attributable to equity participants							
	Note	Paid in capital	Fiduciary reserve	Fair value reserve	Currency translation	Other reserves	Total reserves	Non-controlling interests	Total equity
At 1 January 2011 Restated		390,316	167,453	44,126	17,397	(94,907)	134,069	562,919	1,087,304
Total comprehensive income/(loss)		-	-	(21,175)	(11,368)	(31,567)	(64,110)	(28,182)	(92,292)
Dividend declared		-	-	-	-	-	-	-	-
Allocation to fiduciary reserves	41	-	20,000	-	-	(20,000)	-	-	-
At 31 December 2011		390,316	187,453	22,951	6,029	(146,474)	69,959	534,737	995,012
Total comprehensive income/(loss)		-	-	40,668	(13,999)	3,676	30,345	3,876	34,221
Dividend declared		-	-	-	-	-	-	-	-
Allocation to fiduciary reserves	41	-	20,000	-	-	(20,000)	-	-	-
At 31 December 2012		390,316	207,453	63,619	(7,970)	(162,798)	100,304	538,613	1,029,233

The notes on pages 18 to 75 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER

(Thousands of US dollars)

	Notes	2012	2011 Restated
Cash flows from operating activities			
(Loss)/profit before taxes and non-controlling interests		(10,794)	(50,587)
Adjustments for:			
Depreciation and amortisation	15,16	29,374	47,726
Fair value adjustments on trading securities		(8,733)	(6,751)
Fair value adjustment on investments in financings	24	13,053	5,878
Loss/(gain) on purchase/sale of subsidiary		-	43
(Income) from associated companies	14	(78,356)	(25,776)
Changes in fair value of investment properties	13	7,252	4,513
Provisions for impairment	9,10,15,16,21	27,955	(4,911)
Operating loss before changes in operating assets and liabilities		(20,249)	(29,865)
Net decrease in investments with Islamic institutions		1,141	26,088
Net (increase) of trading securities		(21,654)	(23,780)
Net (increase) in investments in financings		(168,540)	(49,755)
Net decrease/(increase) of investment securities	10	175,356	(45,378)
Net decrease in accounts receivable		2,887	3,852
Net increase in accounts payable, excluding taxes		20,905	93,789
Net increase/(decrease) in Massaref accounts		79,349	(15,748)
Taxes paid		(6,142)	(13,663)
Release of restricted cash		-	24,433
Net cash provided by/ used in operating activities		63,053	(30,027)

The notes on pages 18 to 75 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER

(Thousands of US dollars)

	Notes	2012	2011 Restated
Cash flows from investing activities			
Purchase of investment property	13	(961)	(9,942)
Sale of investment property	13	3,858	7,026
Investments in associated companies	14	-	-
Sale of investment in associated companies	14	58	-
Dividends from associated companies	14	24,878	26,090
Purchase of property, plant and equipment and intangibles	15,16	(26,844)	(37,287)
Sale of property, plant and equipment and intangibles	15,16	23,891	17,784
Acquired non-current assets via settlements		(3,712)	-
Net cash provided by investing activities		21,168	3,671
Cash flows from financing activities			
Dividends paid		(986)	(793)
Net purchase of treasury shares		-	(666)
Cash (outflow)/inflow on acquisition of non-controlling interests		(162)	6,697
Net cash (used in)/provided by financing activities		(1,148)	5,238
Foreign currency translation adjustments		7,734	38,198
Net increase in cash and cash equivalents		90,807	17,080
Cash and cash equivalents at beginning of year		785,042	767,962
Cash and cash equivalents at end of year		**875,849**	**785,042**

The notes on pages 18 to 75 form an integral part of these consolidated financial statements.

1. Formation and activities

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

2. Accounting policies

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

Basis of preparation

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

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

As of 31 December 2012 DMI Trust has a $190 million borrowing from its controlled and fully consolidated subsidiary Ithmaar Bank B.S.C. The facility is repayable on 15 August 2013. As of today, DMI Trust and Ithmaar Bank have held discussions on how the facility could be rolled over; however no formal agreement has yet been reached. Management is confident that a solution can be reached with all parties ahead of the repayment date.

Impact of New Accounting Pronouncements: International Financial Reporting Standards

New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2012.

There are no IFRS or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2012 that are expected to have a material impact on the Group.

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

Amendment to IFRS 7, 'Financial instruments: Disclosures' on transfer of financial assets – These amendments are as part of the IASBs comprehensive review of off balance sheet activities. The amendments promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. Effective date 1 July 2011.

New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2012 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

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

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2012 and not early adopted.

There are no IFRS or IFRIC interpretations that were issued but not effective for the financial year beginning 1 January 2012 and not early adopted that would be expected to have a material impact on the Group, unless otherwise mentioned below.

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

Amendment to IAS 19, 'Employee benefits' – These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. Effective date 1 January 2013. The impact on the 2013 Group accounts is estimated to increase the pension liability through equity by the amount of unrecognised actuarial losses which amounted to $9.0 million at 31 December 2012 (2011: $6.5 million), whilst increasing the 2012 expense by $0.1 million.

IAS 27 (revised 2011), 'Separate financial statements' – This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. Effective date 1 January 2013.

IAS 28 (revised 2011), 'Associates and joint ventures' – This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. Effective date 1 January 2013.

IAS 32, 'Financial instruments: Presentation' on asset and liability offsetting – These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. Effective date 1 January 2014.

IFRS 7, 'Financial instruments: Disclosures' on asset and liability offsetting – This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. Effective date 1 January 2013.

IFRS 9, 'Financial instruments' – IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. Effective date 1 January 2015. The Group has yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.

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

Based upon the Group's assessment of IFRS 10, DMI will consolidate effective 1 January 2013 Faisal Islamic Bank of Egypt (FIBE) due to the control of the company through its Board of Directors and the dispersed nature of the remaining shareholders. FIBE's net asset value at 31 December 2012 is $419.6 million, with a net profit of $104.0 million (note 14) for the year then ended, based upon local statutory accounting principal. DMI's 2012 Consolidated Financial Statements will be restated accordingly.

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

IFRS 12, 'Disclosures of interest in other entities' – This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group does not expect a material impact on the financial statements other than required disclosures. Effective date 1 January 2013.

Amendments to IFRSs 10, 11 and 12 on transition guidance. These amendments provide additional transition relief to IFRS 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied. Effective date 1 January 2013.

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

Annual improvements 2011 – These annual improvements, address six issues in the 2009-2011 reporting cycle. Effective date 1 January 2013. They include changes to:

IFRS 1, 'First time adoption'

IAS 1, 'Financial statement presentation'

IAS 16, 'Property, plant and equipment'
IAS 32, 'Financial instruments; Presentation'

IAS 34, 'Interim financial reporting'

Consolidation

(a) Subsidiaries

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

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

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

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

(b) Transactions and
non-controlling interests

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

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

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

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

(c) Associates

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

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

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

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

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

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

Derivative financial instruments and hedging

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

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

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

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

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

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

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

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

Income from investments with Islamic institutions and investments in financings

Income from investments with Islamic institutions and investments in financings, which are included in the IAS 39 category "Loans and

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

Fee and commission income

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

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

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

Distribution to Massaref account holders

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

Sale and repurchase agreements

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

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

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

Financial Assets

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

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

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

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

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

(b) Loans and receivables

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

and receivables that are not quoted in an active market. Loans and receivables are carried at amortised cost using the effective yield method. All loans are recognised when cash is advanced to the customer.

(c) Held-to-maturity

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

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

(d) Available-for-sale

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

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

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

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

Impairment of Financial Assets

(a) Assets carried at amortised cost

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

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

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

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

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

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics

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

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income.

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

(b) Assets classified as available-for-sale

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

(c) Renegotiated loans

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

Impairment of non-financial assets

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

Investments with Islamic Institutions

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

Intangible assets

(a) Goodwill

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

fair value less costs to sell. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

(b) Computer software

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

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

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

(c) Other acquired intangible assets

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

Investment Property

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

Property, plant and equipment and depreciation

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

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

Buildings: 50 years

Leasehold improvements:
over the period of the lease

Furniture, equipment and motor vehicles: 3-10 years

Aircraft: 25 years

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

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

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

Leases

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

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

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

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources embodying economic benefits will

be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the statement of financial position date.

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

Non-current-assets held for sale

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

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

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

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

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

Discontinued Operations

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

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

Due to banks and financial institutions

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

Borrowings

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

Retirement benefit plans

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

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

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

Taxation

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

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

Deferred income taxes

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

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

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

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

Trust capital and treasury stock

Dividends on participation units

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

Treasury stock

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

Fiduciary risk reserve

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

Acceptances

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

Cash and cash equivalents

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

Fiduciary activities

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

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

3. Critical accounting estimates and judgements in applying accounting policies

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

Impairment of investments in financings

The Group reviews its investments in financings to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of income, judgements are made as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This

evidence may include observable data indicating that there has been an adverse change in the payment status of a borrower, or national or local economic conditions that correlate with defaults on assets. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly.

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

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

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

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

Fair value of investment properties

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

Special purpose entities

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

Income taxes

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

Impairment of associated companies

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

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

On the basis that the Group used a discounted cash flow model to arrive at a value in use which ultimately was higher than both the carrying amount and the fair value less cost to sell (based on the underlying quoted market price), no impairment charge was recorded in the consolidated financial statements. Had the assumptions utilised in the discounted cash flow model for future cash flows decreased by 10% this would equate to the Group's share of the value in use in Faisal Islamic Bank of Egypt of $258.9 million. Had the assumptions utilised in the discounted cash flow model for the underlying discounting factor increased by 10.0% this would equate to the Group's share of the value in use in Faisal Islamic Bank of Egypt of $258.8 million. The carrying value in the consolidated statement of financial position as at 31 December 2012 for Faisal Islamic Bank of Egypt was $249.9 million, which is lower than the "value in use" amounts mentioned above.

Estimated impairment of goodwill

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

During 2012 the Group used a sum-of-the-parts approach to arrive at a business value of the Ithmaar Bank B.S.C. CGU. The valuation methodology for the separately identified parts at Ithmaar Bank B.S.C. level based on the operational activities is the following:

- Formerly Shamil Bank: value in use based on discounted cash flows

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

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

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

- Formerly Shamil Bank: long-term growth rate of 5% (2011: 2%), discount rate of 11.5% (2011: 14.85%)
- Faysal Bank Limited: long-term growth rate of 3% (2011: 2%), discount rate of 23.6% (2011: 25.84%)
- BBK: long-term growth rate of 4% (2011: 4%), cost of the equity of 11.3% (2011: 11.5%), control premium of 15%
- Ithmaar Bank residual assets: investments measured at their carrying value adjusted for fair value changes

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

On the basis that the Group used a discounted cash flow model to arrive at a value in use of the Islamic Investment Company of the Gulf (Bahamas) Limited CGU which ultimately was higher than the carrying amount no impairment charge was recorded in the consolidated financial statements (2011: $Nil million). Management's assessment of the value in use of Islamic Investment Company of the Gulf (Bahamas) Limited exceeds its carrying value, therefore any significant changes to assumptions used in management's assessment will not result in impairment.

Pension obligations

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

4. Financial instruments

A. Strategy in using financial instruments

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

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

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

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

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

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

	2012	2011
Total debt	1,570,381	1,861,224
Less: cash and cash equivalents	(875,849)	(785,042)
Net debt	694,532	1,076,182
Total equity	**490,620**	**460,275**
Debt-to-equity ratio	142%	234%

4. Financial instruments (continued)

B. Capital management

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

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

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

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

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

C. Financial risk management

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

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

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

D. Credit risk

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

Credit risk measurement

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

4. Financial instruments (continued)

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

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

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

Risk limit control and mitigation policies

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

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

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

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

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

i) Mortgages over residential and commercial properties;

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

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

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

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

(b) Derivatives

The Group maintains control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and

4. Financial instruments (continued)

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

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

(c) Credit-related commitments

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

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

Impairment and provisioning policies

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

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

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

4. Financial instruments (continued)

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

	Maximum exposure	
	2012	**2011**
Cash and cash equivalents	875,849	785,042
Investments with Islamic institutions	119,373	120,514
Trading securities	81,073	64,555
Investments in financings:		
Corporate financing	1,722,749	1,484,329
Bank and other financial institutions	10,461	-
Agricultural financing	56,920	58,288
Government/public financing	-	-
Trust financing	106,431	104,316
Consumer financing	230,266	322,289
Other financing	20,039	20,041
Investment securities	1,059,923	1,202,791
Accounts receivable (note 12)	161,382	182,303
Total financial assets	**4,444,466**	**4,344,468**
Credit risk exposure relating to off-balance sheet items are as follows:		
Financial acceptances, performance bonds, guarantees and irrevocable letters of credit	1,150,342	1,033,074
Financing commitments, undrawn facilities and other credit related liabilities	926,789	980,986
Total off-balance sheet	**2,077,131**	**2,014,060**
At 31 December	**6,521,597**	**6,358,528**
Fair value of collateral	**4,108,941**	**4,096,867**

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

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

4. Financial instruments (continued)

Investments in financings and receivables past due but not impaired

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

2012

	Investments in financings							
	Corporate financing	Banks and other Financial institutions	Agricultural financing	Consumer financing	Government/ Public financing	Other financing	Accounts receivable	Total
Past due up to 30 days	-	-	-	20	-	-	286	306
Past due from 31 to 90 days	650	-	21	844	-	-	2,747	4,262
Past due greater than 90 days	30,419	-	-	2,533	-	-	830	33,782
Total	31,069	-	21	3,397	-	-	3,863	38,350
Fair value collateral	94,618	-	8,365	9,151	-	-	-	112,134

2011

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

The collateral comprises $111.4 million (2011: $ 571.6 million) relating to financings of $66.6 million (2011: $355.6 million) where the coverage of client exposure is 100% or greater; and $0.7 million (2011: $Nil million) relating to financings of $7.2 million (2011: $Nil million) where the coverage is less than 100%.

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

E. Market risk

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

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

4. Financial instruments (continued)

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

(a) Foreign exchange risk

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

Currency risk

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

As at 31 December 2012	USD/EUR	USD/BHD	USD/AED	USD/GBP	USD/EGP
Total currency exposure	(226,190)	(518,272)	(371,296)	(70,357)	(1,080)
Reasonable shift	0.39%	0.03%	0.02%	0.42%	30.9%
Total effect on income	(878)	(179)	(76)	(299)	(334)
As at 31 December 2011					
Total currency exposure	(143,845)	(481,562)	(307,489)	(44,711)	(179)
Reasonable shift	0.9%	0.02%	0.01%	0.5%	17.8%
Total effect on income	(1,311)	(83)	(17)	(221)	(32)

The basis for calculation of the reasonable shift is arrived at by comparing the foreign exchange spot rate at 31 December as compared to the one year forward rate for the same period. The total effect on equity was determined not to be material.

(b) Profit rate risk

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

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

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

4. Financial instruments (continued)

Profit rate risk

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

As at 31 December 2012

	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Assets							
Cash and cash equivalents	614,825	14,464	-	-	-	246,561	875,849
Investments with Islamic institutions	69,039	-	50,138	179	-	17	119,373
Trading securities	4,735	10,654	60,037	5,641	-	6	81,073
Investments in financings	512,454	579,316	774,561	128,739	50,727	101,068	2,146,866
Investment securities	110,542	78,978	379,672	100,268	103,334	287,129	1,059,923
Other assets	4,719	1,405	2,097	18,843	-	123,348	150,412
Total financial assets	1,316,314	684,817	1,266,505	253,670	154,061	758,129	4,433,496
Liabilities							
Massaref accounts	1,310,426	777,358	1,351,163	103,353	21,440	1,107,535	4,671,275
Other liabilities	8,114	-	2,417	2,344	-	721,361	734,236
Total financial liabilities	1,318,540	777,358	1,353,580	105,697	21,440	1,828,896	5,405,511
Total repricing gap	(2,226)	(92,541)	(87,075)	147,973	132,621	(1,070,767)	(972,015)

As at 31 December 2011

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

As at 31 December 2012

	USD	EUR	PKR	BHD	AED
Total profit rate exposure in the consolidated statement of financial position	147,913	424,924	762,352	574,569	314,783
Reasonable shift	0.37%	1.58%	0.48%	1.07%	0.12%
Total effect on income	543	6,693	3,659	6,148	378
Total effect on equity	-	-	3,534	-	-

As at 31 December 2011

	USD	EUR	PKR	BHD	AED
Total profit rate exposure in the consolidated statement of financial position	146,214	393,940	894,567	543,034	319,337
Reasonable shift	0.34%	0.47%	0.01%	0.24%	0.07%
Total effect on income	497	1,852	84	1,276	224
Total effect on equity	-	-	68	-	-

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

4. Financial instruments (continued)

Price risk

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

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

	Impact on other components of equity	
	2012	**2011**
Pakistan stock exchange (+/-10%)	4,175	7,769

F. Liquidity risk

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

Liquidity risk management process

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

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

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

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

iv) Managing the concentration and profile of debt maturities.

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

The Group also monitors unmatched medium-term assets.

4. Financial instruments (continued)

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

As at 31 December 2012

	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Total
Liabilities						
Customer current accounts	1,193,726	-	-	-	-	1,193,726
Customer investment accounts	1,234,982	209,121	397,488	65,549	605	1,907,745
Due to banks and financial institutions	702,728	124,085	418,321	73,816	5,240	1,324,190
Investments from off-balance sheet funds	47	1,229	47,967	198,540	2,446	250,229
Accounts payable	671,891	2,398	83,097	7,880	22,033	787,299
Non-current liabilities held for sale	-	-	-	-	-	-
Total liabilities liquidity risk	3,803,374	336,833	946,873	345,785	30,324	5,463,189
Total assets (less discounting) liquidity risk	1,524,641	416,785	1,156,857	1,390,493	2,081,580	6,570,356

As at 31 December 2011

	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Total
Liabilities						
Customer current accounts	792,082	-	-	-	-	792,082
Customer investment accounts	767,933	117,545	337,512	418,072	295,916	1,936,978
Due to banks and financial institutions	808,158	140,614	401,179	59,614	218,483	1,628,048
Investments from off-balance sheet funds	7,852	1,364	31,569	196,442	-	237,227
Accounts payable	674,148	1,260	36,454	7,993	55,797	775,652
Non-current liabilities held for sale	3	-	-	-	-	3
Total liabilities liquidity risk	3,050,176	260,783	806,714	682,121	570,196	5,369,990
Total assets (less discounting) liquidity risk	1,334,928	527,719	1,432,780	1,019,855	2,124,833	6,440,115

4. Financial instruments (continued)

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

	No later than one year	One-five years	Over five years	Total
As at 31 December 2012				
Acceptances and endorsements	119,952	-	-	119,952
Guarantees and irrevocable letters of credit	347,094	260,246	268	607,608
Performance bid bonds	30,700	2,310	-	33,010
Other contingent liabilities	1,021	374,204	14,546	389,771
Undrawn facilities and other commitments to finance	738,115	-	17,168	755,283
Operating lease commitments	-	-	225	225
Open foreign currency positions	734,286	-	-	734,286
Repurchased and resale transactions	171,506	-	-	171,506
Total off-balance sheet liabilities	2,142,674	636,760	32,207	2,811,641
As at 31 December 2011				
Acceptances and endorsements	54,509	55,358	-	109,867
Guarantees and irrevocable letters of credit	451,414	27,408	12,353	491,175
Performance bid bonds	18,093	-	-	18,093
Other contingent liabilities	-	399,755	14,184	413,939
Undrawn facilities and other commitments to finance	7,186	693,228	36,402	736,816
Operating lease commitments	-	-	46	46
Open foreign currency positions	773,098	-	-	773,098
Repurchased and resale transactions	244,170	-	-	244,170
Total off-balance sheet liabilities	1,548,470	1,175,749	62,985	2,787,204

Assets held for managing liquidity risk

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

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

4. Financial instruments (continued)

Derivative liabilities

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

As at 31 December 2012	Up to one month	One-three months	Three-twelve months	One-five years	Total
Derivatives held for trading:					
- Foreign exchange derivatives	-	-	-	-	-
Derivatives held for hedging:					
- Foreign exchange derivatives	-	-	-	-	-
As at 31 December 2011					
Derivatives held for trading:					
- Foreign exchange derivatives	-	14,594	17,854	74,030	106,477
Derivatives held for hedging:					
- Foreign exchange derivatives	-	(337)	(39)	-	(376)

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

As at 31 December 2012	Up to one month	One-three months	Three-twelve months	One-five years	Total
Derivatives held for trading:					
- Foreign exchange derivatives					
- Outflow	-	-	(10,838)	(120,646)	(131,484)
- Inflow	-	-	19,372	117,158	136,531
Derivatives held for hedging:					
- Foreign exchange derivatives					
- Outflow	-	(23,800)	-	-	(23,800)
- Inflow	-	(23,716)	-	-	23,716
Total outflow	-	(23,800)	(10,838)	(120,646)	(155,284)
Total inflow	-	23,716	19,372	117,158	160,246
As at 31 December 2011					
Derivatives held for trading:					
- Foreign exchange derivatives					
- Outflow	-	9,578	32,427	179,433	221,438
- Inflow	-	(11,169)	(30,000)	(200,000)	(241,169)

4. Financial instruments (continued)

Funding approach

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

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

5. Cash and cash equivalents

	2012	2011
Cash on hand	88,624	72,166
Cash at central banks – statutory reserve	144,729	126,707
Cash at central banks – current account	114,800	93,500
Cash at other banks	527,696	492,669
Cash and cash equivalents	875,849	785,042

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

6. Trading securities

	2012	2011
Trading securities – at fair value		
- Government securities	81,064	54,717
- Corporate securities	9	9,838
	81,073	64,555

The movement in trading securities is summarised as follows:

	2012	2011
At 1 January	64,555	41,343
Additions	6,672,904	3,591,029
Disposals	(6,666,558)	(3,572,022)
Gain/(loss) on trading	15,308	4,774
Revaluation of trading securities	459	(665)
Exchange differences	(5,595)	96
At 31 December	81,073	64,555

7. Investments in financings

	2012	2011
Islamic investments in financings	2,296,722	2,144,841
Financings subject to finance leases	81,823	79,804
Provision for bad and doubtful debts	(231,679)	(235,382)
	2,146,866	1,989,263

Islamic investments in financings largely comprise conventional loans and advances made by a subsidiary of the Group and a loan on a profit sharing basis to a trust outside the Group in the amount of $106.4 million (2011: $104.3 million).

Financings subject to finance leases

2012	Investment in finance leases receivable	Unearned future finance income on finance leases	Gross investment in finance leases
Not later than one year	23,421	2,469	25,890
Later than one year and not later than five years	49,216	6,717	55,933
	72,637	9,186	81,823
2011			
Not later than one year	25,236	9,844	35,080
Later than one year and not later than five years	28,210	16,514	44,724
	53,446	26,358	79,804

The allowance for uncollectible finance lease receivables included in the provision for impairment amounted to $Nil million at 31 December 2012 (2011: $Nil million).

8. Collateral received and re-pledged

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

	Fair value amount	
	2012	2011
Assets repledged with obligation to return (reverse repo)	-	244,170
Assets available to be sold with obligation to return (real estate)	-	37,746

Repossessed collateral

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

Nature of assets	Carrying amount	Classification on statement of financial position
2012		
-	-	-
2011		
-	-	-

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

9. Allowance account from credit losses

Allowance for impairment

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

	Investments in financings						
2012	Corporate financing	Banks and other financial institutions	Agricultural financing	Consumer financing	Other financing	Other receivables	Total
Balance at 1 January	198,109	-	4,747	32,002	524	44,392	279,774
Provision for impairment	43,447	-	1,759	(7,550)	-	14,638	52,294
Reversal of impairment provision	(19,629)	-	(555)	(4,642)	-	(126)	(24,952)
Loans written off as uncollectable	(1,544)	-	-	-	-	(13,430)	(14,974)
Foreign exchange	(11,896)	-	(353)	(2,718)	(22)	(3,575)	(18,564)
Balance at 31 December	**208,487**	**-**	**5,598**	**17,092**	**502**	**41,899**	**273,578**
General impairments	-	-	-	-	-	-	-
Individually impaired loans	208,487	-	5,598	17,092	502	41,899	273,578
Fair value of collateral	762,546	-	60,262	89,958	-	-	912,766

9. Allowance account from credit losses (continued)

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

10. Investment securities

	2012	2011
Investment securities available-for-sale	1,040,135	1,133,055
Investment securities held to maturity	19,788	69,736
	1,059,923	1,202,791

Investment securities available-for-sale

	2012	2011
Investment securities – at fair value		
- Listed	87,523	109,329
- Unlisted	952,612	1,023,726
	1,040,135	1,133,055

Gains/(losses) from investment securities

	2012	2011
Sale of available-for-sale assets	69,252	79,743
Derecognition of available-for-sale assets	-	2,023
Provision for impairment of available-for-sale assets	(9,969)	(11,662)
Provision for impairment held-to-maturity	(3,474)	(1,895)
Term finance certificates	4,619	872
	60,428	69,081

10. Investment securities (continued)

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

	2012	2011
At 1 January	1,133,055	1,104,038
Additions	2,117,603	2,064,316
Disposals	(2,247,041)	(1,975,958)
Net gains/(losses) from changes in fair value	48,734	(6,493)
Exchange differences	(2,248)	(41,186)
Reversal of impairment provision	394	5,669
Provision for impairment	(10,362)	(17,331)
At 31 December	1,040,135	1,133,055

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

	2012	2011
At 1 January	69,736	114,945
Additions	2,140	-
Matured	(48,614)	(43,314)
Provision for impairment	(3,474)	(1,895)
	19,788	69,736

11. Fair value of financial instruments

a) Financial instruments measured at fair value

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. There was no change in valuation technique used to fair value financial instruments (2011: $Nil).

b) Financial instruments not measured at fair value

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

	Carrying amount		Fair value	
	2012	2011	2012	2011
Financial assets				
Investments in financings	-	-	-	-
Investment securities	-	-	-	-
Financial liabilities				
Customer investment accounts	-	-	-	-

11. Fair value of financial instruments (continued)

Investments in financings

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

Due to banks and customers

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

Fair value

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

c) Fair value hierarchy

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1). This level includes listed equity securities and debt instruments on exchanges and exchange traded derivatives like futures.

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt.

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3). This level includes equity investments and debt instruments with significant unobservable components.

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

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

11. Fair value of financial instruments (continued)

Assets and liabilities measured at fair value

At 31 December 2012	Level 1	Level 2	Level 3	Total
Trading securities				
- Equity securities	9	-	-	9
- Debt securities	-	81,064	-	81,064
Investment securities - available-for-sale				
- Equity securities	48,216	121,787	85,087	255,090
- Debt securities	-	785,045	-	785,045
Hedging derivatives	-	4,087		4,087
Total assets	48,225	991,983	85,087	1,125,295
Derivatives held for trading	-	84	-	84
Total liabilities	-	84	-	84

Reconciliation of Level 3 items

	Investment securities			
	Equity securities	Debt securities	Total Assets	Total liabilities
At 1 January 2012	97,473	-	97,473	-
Total profit/(loss)				
Profit/(loss)	(578)	-	(578)	-
- Other comprehensive income/(loss)	-	-	-	-
Purchases	332	-	332	-
Sales	(12,140)	-	(12,140)	-
Settlements	-	-	-	-
Transfers into Level 3	-	-	-	-
At December 2012	85,087	-	85,087	-

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

At 31 December 2012	(578)	-	(578)	-

11. Fair value of financial instruments (continued)

Assets and liabilities measured at fair value

At 31 December 2011	Level 1	Level 2	Level 3	Total
Trading securities				
- Equity securities	9,837	-	-	9,837
- Debt securities	-	54,718	-	54,718
Investment securities - available-for-sale				
- Equity securities	109,330	120,796	97,473	327,599
- Debt securities	-	805,456	-	805,456
Total assets	119,167	980,970	97,473	1,197,610
Derivatives held for trading	-	38,887	-	38,887
Total liabilities	-	38,887	-	38,887

Reconciliation of Level 3 items

	Investment securities			
	Equity securities	Debt securities	Total Assets	Total liabilities
At 1 January 2011	116,946	-	116,946	-
Total profit/(loss)				
Profit/(loss)	(9,910)	-	(9,910)	-
- Other comprehensive income/(loss)	-	-	-	-
Purchases	-	-	-	-
Sales	(9,929)	-	(9,929)	-
Settlements	-	-	-	-
Transfers into Level 3	500	-	500	-
Transfers out of Level 3	(134)	-	(134)	-
At December 2011	97,473	-	97,473	-

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

At 31 December 2011	(9,910)	-	(9,910)	-

Sensitivity of Level 3 measurements to reasonably possible alternative assumptions

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

	Impact in equity	
At 31 December 2012	Favourable changes	Unfavourable changes
Trading securities	-	-
Investment securities – available for sale	8,509	(8,509)
At 31 December 2011		
Trading securities	-	-
Investment securities – available for sale	9,747	(9,747)

12. Accounts receivable

	2012	2011
Accounts receivable	115,635	184,342
Provision for bad and doubtful debts (note 9)	(41,899)	(44,392)
Funds under management	83,559	42,353
Derivative financial instruments	4,087	-
	161,382	182,303

Included in accounts receivable are prepayments in the amount of $15.9 million (2011: $13.8 million) and loans to employees and directors of $31.0 million (2011: $35.7 million). The remaining balance relates primarily to project management fees and balances due from customers. Included in the receivable from funds under management at 31 December 2012 was $26.2 million (2011: $35.8 million) in bridge financings made to real estate development funds which were sponsored by a subsidiary of the Group. Bridge financings are generally short-term in nature and are repaid following the sale of participation units in the funds to external investors.

Derivative financial instruments

Foreign exchange derivatives held for trading:

2012	Contractual amount	Fair value
Currency forwards	267,766	4,087

2011		
Currency forwards	-	-

13. Investment property

	2012	2011
At 1 January	393,094	392,820
Additions	961	9,942
Disposals	(3,858)	(7,026)
Fair value gains/(losses) during the year	14	(4,514)
Transfer to property, plant and equipment	(84)	-
Impairment provision	(7,267)	
Net exchange differences	3,061	1,872
At 31 December	385,921	393,094

Rental income from investment property amounting to $3.4 million (2011: $3.4 million) has been included in the consolidated statement of income under other income. There were $9.4 thousand direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income (2011: $28.7 thousand) and $19.7 thousand operating expenses arising from investment property that did not generate rental income (2011: $9.9 thousand).

13. Investment property (continued)

Investment property under operating leases

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

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

	2012	2011
Not later than one year	1,730	1,819
Later than one year and not later than five years	3,850	5,557
	5,580	7,376

14. Investments in associates

	2012	2011
At 1 January	884,886	916,675
Share of results before tax	144,820	54,844
Share of tax	(41,991)	(22,318)
Dividends paid	(24,878)	(26,090)
Share of fair value gains/(losses)	28,626	(22,903)
Additions	3,521	-
Disposals	(58)	-
Recycling of reserves on disposal	(17)	-
Loss on disposal	(66)	-
Goodwill impairment	(17,658)	-
Amortisation of intangibles	(6,749)	(6,749)
Exchange differences	(11,787)	(8,573)
At 31 December	958,649	884,886

14. Investments in associates (continued)

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

Name and Country of incorporation	Assets	Liabilities	Income	Profit/(loss)	Published price quotation	---------% holding---------	
						Subsidiary	Group
2012							
Unlisted:							
Solidarity Group Holding B.S.C. (c) (Bahrain)	373,420	85,036	18,205	82,952	-	34	18
First Leasing Bank B.S.C. (c) (Bahrain)	99,452	11,918	3,039	(3,072)	-	43	23
CITIC International Asset Management Limited (Hong Kong)	381,919	19,810	21,509	12,240	-	20	11
CIAM-Shamil Asset Management Company Limited (Hong Kong)	630	6	-	-	-	50	27
Sanpak Engineering (Pakistan)	8,933	6,994	-	-	-	31	17
*Islamic Company for Production, Printing and Packing Materials "Icopack" (Egypt)	66,083	51,709	24,197	689	-	23	12
*Misr Company for Packing Materials "Egywrap" (Egypt)	32,423	9,476	17,970	1,372	-	23	12
Faysal Asset Management Limited (Pakistan)	2,653	277	568	(210)	-	30	16
*Ithraa Capital (Saudi Arabia)	20,009	877	3,515	1,264	-	23	12
Naseej B.S.C. (c) (Bahrain)	300,053	1,487	-	-	-	29	15
*Chase Manara B.S.C. (c) (Bahrain)	5,428	58	223	111	-	40	21
*Islamic Trading Company E.C. (Bahrain)	8,504	74	377	46	-	24	13
*Emerging Markets Partnership Bahrain B.S.C. (c) (Bahrain)	2,054	833	1,101	(160)	-	40	21

* For some of the associates, published information is not available for 31 December 2012 and therefore the income and profit and loss have been arrived at by using the last audited financial statements and projecting for 2012. For presentation purposes, the assets and liabilities for these associates, however, represent the amounts as per the last audited financial statements.

14. Investments in associates (continued)

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

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

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

14. Investments in associates (continued)

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

Name and Country of incorporation	Assets	Liabilities	Income	Profit/ (loss)	Published price quotation	Carrying value per share	---------% holding--------- Subsidiary	Group
2012								
Listed:								
Faisal Islamic Bank of Egypt (Egypt)	6,525,846	6,106,212	507,021	103,993	USD 7.70	USD 8.60	49	49
BBK B.S.C. (Bahrain)	8,242,867	7,474,520	288,151	112,756	BHD .39	BHD .76	25	13
2011								
Listed:								
Faisal Islamic Bank of Egypt (Egypt)	5,816,941	5,478,745	371,565	31,403	USD 3.61	USD 7.23	49	49
BBK B.S.C. (Bahrain)	7,334,361	6,703,011	280,637	84,507	BHD 0.41	BHD 0.70	25	13

USD United States Dollar
BHD Bahrain Dinar

Included in investment in associates at 31 December 2012 is $157.1 million (2011: $175.1 million) of goodwill. The movement is as follows:

	2012	2011
At 1 January	174,818	174,818
Additions	-	-
Disposals	(29)	-
Impairment	(17,658)	-
At 31 December	157,131	174,818

Ithmaar Bank holds a 25.38% shareholding in BBK. As per management's valuation report, the estimated fair of Ithmaar Bank's investment in BBK was determined to be $375.3 million compared to a carrying value of $393.0 million. Based on this assessment management has impaired BBK's carrying value by $17.7 million at 31 December 2012.

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

The shareholders of Ithmaar Bank B.S.C. and First Leasing Bank B.S.C. (FLB) in their Extraordinary General Meetings held on 21 October 2012 approved the Transfer of Business from FLB to Ithmaar and the share swap involving issuance of four ordinary shares of Ithmaar for one ordinary share of FLB directly to the shareholders of FLB (other than for FLB shares held by or on behalf of Ithmaar). The Central Bank of Bahrain's approval was received on 17 February 2013 for Transfer of Business from FLB to Ithmaar. Ithmaar and FLB are completing the remaining legal and regulatory requirements.

The impact on DMI's ownership of Ithmaar Bank B.S.C. share capital resulted in a dilution from 53.28% to 49.29% effective 1 March 2013. As the Group maintains control over Ithmaar's Board of Directors and considering the dispersed nature of the remaining shareholders, DMI will continue to consolidate Ithmaar Bank B.S.C. as a subsidiary based upon the Group's assessment under IFRS 10.

15. Property, Plant and Equipment

	Land and buildings	Leasehold property, furniture, aircrafts, equipment and motor vehicles	Total
Cost			
At 1 January 2012	95,169	130,322	225,491
Additions	9,402	16,361	25,763
Disposals	-	(33,908)	(33,908)
Transfer from investment property	84	-	84
Currency effect	(1,020)	(5,718)	(6,738)
At 31 December 2012	103,635	107,057	210,692
Depreciation			
At 1 January 2012	4,690	85,864	90,554
Charge for the year	1,772	9,221	10,993
Impairment for the year	-	(5,955)	(5,955)
Disposals/transfers	-	(4,061)	(4,061)
Currency effect	2,078	(1,671)	407
At 31 December 2012	8,540	83,398	91,938
Cost			
At 1 January 2011	79,992	145,116	225,108
Additions	16,591	17,548	34,139
Disposals	-	(26,872)	(26,872)
Currency effect	(1,414)	(5,470)	(6,884)
At 31 December 2011	95,169	130,322	225,491
Depreciation			
At 1 January 2011	3,691	71,698	75,389
Charge for the year	1,210	20,560	21,770
Impairment for the year	-	5,955	5,955
Disposals/transfers	(599)	(8,489)	(9,088)
Currency effect	388	(3,860)	(3,472)
At 31 December 2011	4,690	85,864	90,554
Net book value			
At 31 December 2012	95,095	23,659	118,754
At 31 December 2011	90,479	44,458	134,937

Land and buildings at 31 December 2012 included cost of land aggregated $74.7 million (2011: $75.9 million).

Leasehold property at 31 December 2012 aggregated $30.8 million (2011: $36.0 million), less accumulated depreciation of $22.0 million (2011: $23.2 million).

16. Intangible assets

	Goodwill	Customer relations	Core deposits	Other*	Total
2012					
Year ended 31 December					
Opening net book amount	371,701	87,706	120,452	4,986	584,845
Additions	-	-	-	1,081	1,081
Foreign exchange	(1,080)	1,571	(1,571)	(1,253)	(2,333)
Amortisation	-	(6,648)	(9,791)	(1,942)	(18,381)
Closing net book amount	370,621	82,629	109,090	2,872	565,212
At 31 December					
Cost	406,135	118,850	170,478	20,493	715,956
Accumulated amortisation and impairment	(35,514)	(36,221)	(61,388)	(17,621)	(150,744)
Net book amount	370,621	82,629	109,090	2,872	565,212
2011					
Year ended 31 December					
Opening net book amount	372,425	100,537	130,322	1,396	604,680
Additions	-	-	-	3,252	3,252
Foreign exchange	(724)	(4,973)	(81)	2,691	(3,087)
Amortisation	-	(7,858)	(9,789)	(2,353)	(20,000)
Closing net book amount	371,701	87,706	120,452	4,986	584,845
At 31 December					
Cost	407,215	118,358	172,049	20,665	718,287
Accumulated amortisation and impairment	(35,514)	(30,652)	(51,597)	(15,679)	(133,442)
Net book amount	371,701	87,706	120,452	4,986	584,845

* Other intangible assets included $3.4 million at 31 December 2012 (2011: $5.5 million) of computer software related to core banking systems, which is being amortised over five years.

16. Intangible assets (continued)

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

	2012	2011
Ithmaar Bank B.S.C.	338,435	339,515
Islamic Investment Company of the Gulf (Bahamas) Limited	32,186	32,186
	370,621	371,701

On 31 March 2010, DMI acquired an additional 400 million shares of Ithmaar Bank B.S.C. by participation in a rights issue at a price of $0.25 per share for a total consideration of $100 million. As a result of this transaction, DMI owned 52.6% of the outstanding shares of Ithmaar Bank B.S.C. converting it from an associate to a subsidiary, which resulted in the full consolidation of Ithmaar's income statement and balance sheet at 31 December 2010. The step acquisition from the associated company to the subsidiary company resulted in a net gain of $334.9 million, which was included in the consolidated statement of income. This amount comprised a mark up to fair value of the associated company shareholding of 44.9%. In assessing the above gain, DMI relied upon an independent valuation commissioned from an international firm of chartered accountants who established a value using various valuation methodologies comprising the average of a peer group market analysis of banks listed on the Bahrain Bourse and a discounted cash flow adjusted for an estimated control premium but which did not include a reference to the market price of Ithmaar Bank's shares at the relevant time. Both the independent valuer and DMI believed that the share price quoted on the Bahrain Bourse did not reflect the fair value of the business and they also did not consider that the historical turnover of the shares constituted an active market. As a result, the share price was disregarded in the valuation.

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

Non-current assets and liabilities held for sale

At 31 December 2012 non-current assets held for sale included vacant properties comprising land and buildings in the amount of $26.9 million which Faysal Bank Limited management intends to dispose of in the future and the carrying amount will be recovered principally through a sale transaction rather than continuing use.

On 1 October 2010, the Board of Directors of Faysal Management Services (Private) Limited (FMSL), a subsidiary of Faysal Bank Limited in which it has 60% shareholding, decided to voluntarily wind up the company and accordingly, resolved to initiate proceedings of winding up by the members of FMSL under the Companies Ordinance, 1984. In view of this, the net assets of FMSL in the amount of $2.1 million have been classified as "non-current assets held for sale" in the consolidated financial statements and valued at lower of cost and fair value less cost to sell. At 31 December 2012, the assets amounting to $2.1 million remained classified as non-current assets held for sale.

In 2012 an official was appointed by the High Court to distribute realised cash assets to shareholders of FMSL. This distribution took place in February 2013. The proceedings are at an advanced stage and are expected to be completed during 2013.

18. Accounts payable

	2012	2011 Restated
Accounts payable and other provisions	61,343	65,049
Advance received from customers	27,803	27,596
Demand drafts	43,731	34,216
Accruals	22,717	21,964
Security deposits on consumer leases	25,247	26,507
Funds under management	565,907	518,134
Dividends payable	15,597	16,673
Derivative financial instruments	84	38,887
Employee payables	24,485	26,265
Deferred income	385	361
	787,299	775,652

There were no liabilities against assets subject to finance leases at 31 December 2012 (2011: $Nil).

Derivative financial instruments

Foreign exchange derivatives held for trading:

2012	Contractual amount	Fair value
Currency forwards	23,800	84

2011		
Currency forwards	467,194	38,887

19. Tax liability

	2012	2011
Current tax (receivable)/payable		
At 1 January	(12,084)	(7,874)
Charge for the period	2,408	8,581
Adjustment	-	104
Payments made	(6,269)	(13,663)
Refund	127	-
Exchange differences	1,428	768
At 31 December	(14,390)	(12,084)
Deferred tax (asset)/liability		
At 1 January	(56,019)	(48,486)
Charge for the period	(1,149)	(8,411)
Changes due to fair value reserve	5,903	(1,995)
Adjustment	-	-
Refund	-	-
Exchange differences	4,705	2,873
At 31 December	(46,560)	(56,019)

20. Massaref accounts

	2012	2011
Customer current accounts		
Individuals	426,610	362,053
Corporate institutions	1,465	428,792
Financial institutions	765,650	1,237
Customer investment accounts		
Individuals	825,987	833,143
Corporate institutions	68,652	1,034,111
Financial institutions	1,012,531	69,252
Due to associated companies (note 35)	20,000	20,000
Investments from off balance sheet funds	246,855	233,732
Due to banks and financial institutions	1,303,526	1,607,492
	4,671,276	4,589,812

Customer current accounts include balances relating to a counterparty amounting to $237.4 million (2011:$Nil million) which is subject to freeze and originating from jurisdiction under US and UN sanctions. The balance due to this counterparty was included under due to banks and financial institutions as at 31 December 2011.

The remaining due to customers represent conventional deposits accepted by a subsidiary of the Group, and include floating rate unsecured term finance certificates issued by a subsidiary.

Included in investments from off balance sheet funds at 31 December 2012 is an amount of $106.4 million (2011: $104.3 million), which relates to investments received from off balance sheet funds and which was subsequently reinvested in investments in financings outside of the Group. The remaining amount represents off balance sheet funds invested with the Group's subsidiaries.

Due to banks and financial institutions include balances totalling $ 667.9 million (2011: $885.4 million) from two counterparties (2011: three counterparties) having contractual maturity ranging from one month to 3 years. Out of these, balances totalling $424.7 million (2011: $650.0 million) is from one counterparty (2011: two counterparties) which is subject to freeze and originating from jurisdiction under US and UN sanctions. The balance due to one counterparty is now included under customer current accounts as at 31 December 2012.

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

21. Provisions

Included under liabilities are provisions of $55.0 million (2011: $55 million) relating to a guarantee issued to certain funds under management, and $18 million (2011: $18 million) relating to a specific asset risk. Included under expenses at 31 December 2012 is a net charge of $14.5 million (2011: $8.7 million) of provisions relating to project receivables, which is included under receivables (note 9).

22. Collateralised borrowings

Financial assets pledged to secure liabilities:

At 31 December 2012, there were collateralised borrowings in aggregate $151.1 million (2011: $177.6 million).

Cash dividends amounting to $13.8 million (2011: $13.8 million) on certain shares pledged as collateral was directly received by the lender during the year and adjusted against the outstanding facility amount as per the agreed terms.

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

23. Net trading income

	2012	2011
Income from foreign exchange trading	7,401	9,853
Income from government securities	4,292	-
Gains/(losses) on trading securities	15,308	7,802
Gains from revaluation	8,733	6,751
	35,734	24,406

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

24. Income from investments in financings

	2012	2011
Income from investments in financings	239,677	259,093
Present value adjustment	(224)	-
Provision for bad and doubtful debts	(37,655)	(42,124)
Reversal of provision for bad and doubtful debts	24,826	36,246
	226,624	253,215

25. Fee and commission income

	2012	2011
Arrangement fees	697	2,493
Guarantee fees	1,563	1,773
Documentary credit fees	4,577	5,211
Structuring fees and commissions	5,735	425
Aircraft rental fees	-	12,135
Fees from associated companies (note 35)	-	350
Other fees from banking services	31,589	28,486
Fees and commissions expense	-	(3)
	44,161	50,870

26. Dividend income

	2012	2011
Investment securities held to maturity	3,392	2,050
Investment securities available-for-sale	9,767	7,655
	13,159	9,705

Investment securities dividend income represents a mixture of dividend and profit rate income.

27. Other income

	2012	2011
Impairment provision	(7,267)	-
Fair value gain/(loss) on investment properties	14	(4,514)
Rental income from investment properties	3,375	3,436
Loss on sale of investment properties	(707)	-
Other	3,502	4,714
	(1,083)	3,636

28. Staff costs

	2012	2011 Restated
Salaries	88,017	77,212
Social security and other statutory costs	3,584	3,883
Pension and end of service	8,681	10,643
Other benefits	13,201	18,678
	113,483	110,416

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

29. General and administrative expenses

	2012	2011
Office expenses	51,806	55,084
Professional fees	15,068	17,534
Other	19,581	18,083
	86,455	90,701

30. Proposed dividend

No dividend has been proposed for 2012 (2011: Nil).

31. Taxes

	2012	2011
Current taxes	2,408	8,581
Gain on deferred taxes	(1,149)	(8,411)
	1,259	170

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

31. Taxes (continued)

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

	2012	2011
Net accounting (loss)/profit	(10,794)	(50,587)
Weighted average applicable domestic corporate tax rate	(11.67)%	(0.3)%
Weighted average applicable domestic corporate tax	3,133	3,608
Effect of revenue taxed at a different rate than domestic corporate tax rate	(1,874)	(3,438)
Effective tax gain	1,259	170

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

32. Non-controlling interests

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

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

	2012		2011 Restated	
	Non-controlling %		Non-controlling %	
Ithmaar Bank B.S.C. and wholly owned subsidiaries	47	300,449	47	293,401
Faysal Bank Limited	33	91,337	33	86,323
Gulf Investors Asset Management	27	8,207	27	8,654
Health Island B.S.C. (C)	50	111,512	50	111,866
Ithmaar Aviation Lease One (Dublin) Ltd.	5	-	5	341
Cityview Real Estate Development B.S.C. (C)	49	103	49	1,663
Marina Reef Real Estate Development B. S.C. (C)	49	557	49	5,238
Sakana Holistic Housing Solutions B. S.C. (C)	50	26,448	50	27,251
		538,613		534,737

The non-controlling interest appropriation in the consolidated statement of income of $16.0 million represents the non-controlling shareholders' share of the loss of these subsidiaries for 2012 (2011: $19.9 million).

33. Funds under management

Funds under management aggregated $3.7 billion (2011: $3.5 billion) and represented amounts invested by clients and placed with funds managed by the Group. These funds are invested without recourse to the Group. The Group earned fees of approximately $43.8 million associated with such funds in 2012 (2011: $27.0 million).

At 31 December 2012, the Group had amounts due to funds under management of $812.8 million (2011: $751.9 million) and due from of $264.4 million (2011: $210.1 million).

34. Retirement benefit plans

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

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

The assumptions used in the actuarial valuations for 2012 are the best estimates of the main parameters influencing the pension liability and are detailed as follows:

	2012	2011
Standard financial cost rate	2.8%	2.8%
Expected long-term rates of return on plan assets	3.0%	2.9%
Rate of increase in compensation	2.0%	2.0%
The funded status of the Group's pension plans is as follows:		
Projected benefits obligations	65,434	71,569
Plan assets at fair values	(52,052)	(61,691)
Funded status	13,382	9,878
Unrecognised actuarial (loss)/gain	(9,020)	(6,450)
Liability in the statement of financial position	4,362	3,428
Net periodic pension cost consists of the following:		
Service costs	2,146	2,418
Financial costs	2,042	1,818
Expected return on assets	(1,846)	(1,789)
Recognition of past service costs	-	4,063
Recognition of settlement (gains)/losses	-	(1,416)
Total cost	2,342	5,094
Employee contributions	(421)	(491)
Net periodic pension cost	1,921	4,603
Movement in the liability recognised in the statement of financial position:		
At 1 January	3,428	340
Exchange differences	534	299
Net periodic pension cost	1,921	4,603
Employer contributions	(1,521)	(1,814)
At 31 December	4,362	3,428

34. Retirement benefit plans (continued)

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

	2012	2011
At 1 January	71,569	70,098
Service costs	2,146	2,418
Financial costs	2,042	1,818
Employee contributions	421	491
Past service costs	-	4,063
Actuarial gain	2,039	4,158
Benefits paid	(14,346)	(924)
Premiums paid	(272)	(359)
Plan settlements	-	(10,020)
Exchange differences	1,835	(174)
At 31 December	65,434	71,569

	2012	2011
The movement in the fair value of plan assets of the year is as follows:		
At 1 January	61,691	66,712
Expected return on plan assets	1,846	1,789
Actuarial gain/(loss)	(348)	328
Employer contributions	1,521	1,814
Employee contributions	421	491
Benefits paid	(14,346)	(924)
Premiums paid	(272)	(359)
Plan settlements	-	(8,166)
Exchange differences	1,539	6
At 31 December	52,052	61,691
Actual return on plan assets	1,505	2,137

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

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

	2012	2011
Bonds	43.2%	58.8%
Property	27.3%	22.7%
Other	29.5%	18.5%
	100.0%	100.0%

34. Retirement benefit plans (continued)

Expected contributions to post employment benefit plans for the year ending 31 December 2013 is $1.6 million (2012: $1.5 million).

As at 31 December	2012	2011	2010
Present value of defined benefit obligation	65,434	71,569	70,098
Fair value of plan assets	52,052	61,691	66,712
(Surplus)/deficit	13,382	9,878	3,386
Experience adjustments on plan assets	(348)	328	(1,583)
Experience adjustments on plan iabilities	(5,032)	812	2,298
Plan assets invested in real estate currently used by a subsidiary of the Group	14,208	13,985	13,932

35. Related party transactions and balances

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

a) Loans to key management personnel

	2012	2011
Loans		
Loans outstanding at 1 January	2,065	1,014
Loans issued during the year	731	1,667
Loan repayments during the year	(1,264)	(588)
Foreign exchange	17	(28)
Loans outstanding at 31 December	1,549	2,065

No provisions were recognised in respect of loans given to related parties (2011: $Nil).

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

35. Related party transactions and balances (continued)

b) Loans to employees

All employees of the Group are entitled to receive employee loans on favourable terms not equivalent to those of transactions made on an arm's length basis. Included in accounts receivable are amounts due from employees at 31 December 2012 of $31.0 million (2011: $35.7 million).

During the year a real estate asset was sold to an employee for an amount of $0.6 million, what was considered to be an arm's length transaction.

c) Current and investment accounts

	Associated companies	
Period ended	2012	2011
Amounts payable to:		
Faisal Islamic Bank of Egypt	20,000	20,000
Revenue on current and investment accounts:		
Solidarity Group Holding B.S.C.	-	350

d) Key management compensation

	2012	2011
Salaries and other short-term benefits	18,607	18,313
Post-employment benefits	861	715
Other long-term benefits	163	515
	19,631	19,543

36. Contingent liabilities and commitments

Contingent liabilities	2012	2011
Acceptances and endorsements	119,952	109,867
Performance bid bonds	33,010	18,093
Customer claims	389,771	413,939
Guarantees and irrevocable letters of credit	607,608	491,175
	1,150,341	1,033,074

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

Faisal Islamic Bank of Egypt carried at 31 December 2012 contingent liabilities of $20.9 million (December 2011: $23.8 million), of which the Group's share was $10.2 million (December 2011: $11.6 million). These related to guarantees and letters of credit issued as part of their normal banking operations.

BBK carried at 31 December 2012 contingent liabilities of $1,565.7 million (December 2011: $1,450.1 million), of which the Group's share was $208.2 million (December 2011: $193.2 million). These related to guarantees and letters of credit issued as part of their normal banking operations.

Commitments	2012	2011
Undrawn facilities, financing lines	728,529	691,589
Other commitments to finance	26,754	45,227
Repurchase and resale transactions	171,506	244,170
	926,789	980,986

36. Contingent liabilities and commitments (continued)

Operating lease commitments

Commitments for operating leases included cars and office equipment.

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

	2012	2011
Not later than one year	56	40
Later than one year and not later than five years	169	6
	225	46
Significant net open foreign currency position	734,286	773,098

37. Current and non-current assets and liabilities

At 31 December 2012

	Current	Non-current	Total
Cash and cash equivalents	875,849	-	875,849
Due from Islamic institutions	119,177	196	119,373
Trading securities	81,073	-	81,073
Investments in financings	1,380,350	766,516	2,146,866
Investment securities	413,518	646,405	1,059,923
Accounts receivable	93,408	67,974	161,382
Current tax receivable	14,650	-	14,650
Investment property	56,011	329,910	385,921
Investments in associates	-	958,649	958,649
Property, plant and equipment	1,803	116,951	118,754
Intangible assets	-	565,212	565,212
Non-current assets held for sale	26,856	-	26,856
Deferred tax assets	-	54,782	54,782
Total assets	**3,062,695**	**3,506,595**	**6,569,290**
Customer current accounts	1,193,726	-	1,193,726
Customer investment accounts	1,841,495	65,675	1,907,170
Due to banks and other financial institutions	1,244,470	79,056	1,323,526
Investments from off balance sheet funds	45,868	200,986	246,854
Provisions	18,000	55,000	73,000
Non-current liabilities held for sale	-	-	-
Accounts payable	757,386	29,913	787,299
Current tax payable	260	-	260
Deferred tax liabilities	-	8,222	8,222
Total liabilities	**5,101,205**	**438,852**	**5,540,057**
Net assets	**(2,038,510)**	**3,067,743**	**1,029,233**

At 31 December 2011

	Current	Non-current	Total
Total assets	**3,271,439**	**3,167,835**	**6,439,274**
Total liabilities	**4,114,428**	**1,329,834**	**5,444,262**
Net assets	**(842,989)**	**1,838,001**	**995,012**

38. Concentration of assets and liabilities

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

Geographical regions	Asia/ Pacific	Middle East	Europe	North America	Others	Total
At 31 December 2012						
Cash and cash equivalents	265,069	380,741	213,345	8,600	8,094	875,849
Due from Islamic institutions	-	119,373	-	-	-	119,373
Trading securities	81,070	3	-	-	-	81,073
Investments in financings	1,851,299	53,254	113,557	8,617	120,139	2,146,866
Investment securities	842,882	204,521	4,871	7,649	-	1,059,923
Accounts receivable	45,774	84,449	10,469	20,686	4	161,382
Current tax receivable	14,582	38	30	-	-	14,650
Investment property	8,550	270,458	106,913	-	-	385,921
Investments in associates	68,350	890,299	-	-	-	958,649
Property, plant and equipment	62,655	55,664	435	-	-	118,754
Intangible assets	27,573	533,398	4,241	-	-	565,212
Non-current assets held for sale	26,856	-	-	-	-	26,856
Deferred tax assets	54,782	-	-	-	-	54,782
Total assets	**3,349,442**	**2,592,198**	**453,861**	**45,552**	**128,237**	**6,569,290**
Customer current accounts	676,323	225,727	261,939	7,029	22,708	1,193,726
Customer investment accounts	1,898,644	7,981	545	-	-	1,907,170
Due to banks	370,251	818,682	608	-	133,985	1,323,526
Investments from off balance sheet funds	-	25,003	124,897	96,954	-	246,854
Provisions	-	18,000	55,000	-	-	73,000
Non-current liabilities held for sale	-	-	-	-	-	-
Accounts payable	97,644	676,592	13,063	-	-	787,299
Current tax payable	-	10	250	-	-	260
Deferred tax liabilities	3,262	-	4,960	-	-	8,222
Total liabilities	**3,046,124**	**1,771,995**	**461,262**	**103,983**	**156,693**	**5,540,057**
Net on-balance sheet position	**303,318**	**820,203**	**(7,401)**	**(58,431)**	**(28,456)**	**1,029,233**
Contingent liabilities and commitments	**1,735,023**	**304,354**	**17,764**	**14,186**	**6,028**	**2,077,355**

At 31 December 2011

	Asia/ Pacific	Middle East	Europe	North America	Others	Total
Total assets	**3,367,439**	**2,561,516**	**379,341**	**72,856**	**58,122**	**6,439,274**
Total liabilities	**3,038,902**	**1,792,573**	**484,352**	**105,006**	**23,429**	**5,444,262**
Net on-balance sheet position	**328,537**	**768,943**	**(105,011)**	**(32,150)**	**34,693**	**995,012**
Contingent liabilities and commitments	**1,832,124**	**133,621**	**14,689**	**14,186**	**19,486**	**2,014,106**

38. Concentration of assets and liabilities (continued)

As at 31 December 2012

Industry sectors	Banks and financial institutions	Trading and manufacturing	Property and construction	Private individuals	Services	Textile	Other	Total
Cash and cash equivalents	779,792	-	-	-	96,054	-	3	875,849
Due from Islamic institutions	119,373	-	-	-	-	-	-	119,373
Trading securities	3	-	-	-	81,064	-	6	81,073
Investments in financings	153,487	202,877	100,501	162,441	284,906	253,637	989,017	2,146,866
Investment securities	207,048	25,019	63,480	-	761,280	1,214	1,882	1,059,923
Accounts receivable	57,716	9,249	28,255	29,516	16,170	13	20,463	161,382
Current tax receivable	-	-	-	-	14,650	-	-	14,650
Investment property	8,550	-	377,371	-	-	-	-	385,921
Investments in associates	945,304	11,197	2,148	-	-	-	-	958,649
Property, plant and equipment	64,807	-	53,947	-	-	-	-	118,754
Intangible assets	565,212	-	-	-	-	-	-	565,212
Non-current assets held for sale	26,856	-	-	-	-	-	-	26,856
Deferred tax assets	54,782	-	-	-	-	-	-	54,782
Total assets	**2,982,930**	**248,342**	**625,702**	**191,957**	**1,254,124**	**254,864**	**1,011,371**	**6,569,290**
Customer current accounts	10,688	266,068	34,923	403,971	136,585	9,093	332,398	1,193,726
Customer investment accounts	160,268	122,361	7,305	852,446	33,836	12,560	718,394	1,907,170
Due to banks	1,323,526	-	-	-	-	-	-	1,323,526
Investments from off balance sheet funds	246,854	-	-	-	-	-	-	246,854
Provisions	18,000	-	55,000	-	-	-	-	73,000
Non-current liabilities held for sale	-	-	-	-	-	-	-	-
Accounts payable	40,031	20	48,097	36,158	2,230	-	660,763	787,299
Current tax payable	-	-	-	-	260	-	-	260
Deferred tax liabilities	-	-	4,964	-	3,258	-	-	8,222
Total liabilities	**1,799,367**	**388,449**	**150,289**	**1,292,575**	**176,169**	**21,653**	**1,711,555**	**5,540,057**
Net on-balance sheet position	**1,183,563**	**(140,107)**	**475,413**	**(1,100,618)**	**1,077,955**	**233,211**	**(700,184)**	**1,029,233**
Contingent liabilities and commitments	**213,195**	**220,280**	**34,367**	**10,301**	**70,354**	**57,769**	**1,471,089**	**2,077,355**

At 31 December 2011

Industry sectors	Banks and financial institutions	Trading and manufacturing	Property and construction	Private individuals	Services	Textile	Other	Total
Total assets	**2,857,534**	**317,544**	**729,256**	**185,720**	**1,176,438**	**311,125**	**861,657**	**6,439,274**
Total liabilities	**2,061,969**	**357,268**	**148,607**	**1,274,746**	**110,057**	**23,592**	**1,468,023**	**5,444,262**
Net on-balance sheet position	**795,565**	**(39,724)**	**580,649**	**(1,089,026)**	**1,066,381**	**287,533**	**(606,366)**	**995,012**
Contingent liabilities and commitments	**327,292**	**185,394**	**51,993**	**42,242**	**58,532**	**28,524**	**1,320,129**	**2,014,106**

39. Maturities of assets and liabilities

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

	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Total
As at 31 December 2012						
Cash and cash equivalents	853,351	14,463	8,035	-	-	875,849
Due from Islamic institutions	69,040	-	50,137	196	-	119,373
Trading securities	4,735	10,654	65,684	-	-	81,073
Investments in financings	422,655	365,771	591,925	607,679	158,836	2,146,866
Investment securities	71,748	25,202	316,568	522,974	123,431	1,059,923
Accounts receivable	45,862	236	47,310	49,482	18,492	161,382
Current tax receivable	-	-	14,650	-	-	14,650
Investment property	56,010	-	-	208,618	121,293	385,921
Investments in associates	-	-	-	-	958,649	958,649
Property, plant and equipment	176	459	1,168	19,843	97,108	118,754
Intangible assets	-	-	-	183	565,029	565,212
Non-current assets held for sale	-	-	26,856	-	-	26,856
Deferred tax assets	-	-	-	54,782	-	54,782
Total assets	**1,523,577**	**416,785**	**1,122,333**	**1,463,757**	**2,042,838**	**6,569,290**
Customer current accounts	1,193,726	-	-	-	-	1,193,726
Customer investment accounts	1,234,982	209,121	397,392	65,549	126	1,907,170
Due to banks	702,729	124,085	417,656	73,816	5,240	1,323,526
Investments from off balance sheet funds	-	18,465	27,403	198,540	2,446	246,854
Provisions	-	-	18,000	-	55,000	73,000
Non-current liabilities held for sale	-	-	-	-	-	-
Accounts payable	671,890	2,398	83,097	26,856	3,058	787,299
Current tax payable	82	-	178	-	-	260
Deferred tax liabilities	-	-	-	3,262	4,960	8,222
Total liabilities	**3,803,409**	**354,069**	**943,726**	**368,023**	**70,830**	**5,540,057**
Net liquidity gap	**(2,279,832)**	**62,716**	**178,607**	**1,095,734**	**1,972,008**	**1,029,233**
At 31 December 2011						
Total assets	**1,334,087**	**527,719**	**1,432,780**	**1,054,522**	**2,090,166**	**6,439,274**
Total liabilities	**3,050,278**	**259,419**	**822,734**	**694,817**	**617,014**	**5,444,262**
Net liquidity gap	**(1,716,191)**	**268,300**	**610,046**	**359,705**	**1,473,152**	**995,012**

40. Currency exposure

As at 31 December 2012

	United States Dollar	Pakistan Rupee	Bahrain Dinar	Euro	Swiss Franc	Saudi Riyal	Egyptian Pound	Other	Total
Cash and cash equivalents	222,349	197,678	157,007	234,931	17,406	24,193	923	21,362	875,849
Due from Islamic institutions	119,194	-	-	-	-	-	179	-	119,373
Trading securities	-	81,070	-	-	-	-	3	-	81,073
Investments in financings	285,610	1,775,914	2,344	64,759	-	5,389	100	12,750	2,146,866
Investment securities	213,778	835,482	2,864	3,940	747	-	2,581	531	1,059,923
Accounts receivable	99,225	41,965	-	12,449	4,794	1,902	877	170	161,382
Current tax receivable	-	14,581	-	-	31	-	38	-	14,650
Investment property	48,270	8,550	222,091	56,011	50,920	-	79	-	385,921
Investments in associates	876,091	1,015	2,148	-	-	3,769	8,292	67,334	958,649
Property, plant and equipment	5,996	62,655	49,409	8	427	223	36	-	118,754
Intangible assets	537,456	27,573	-	3	180	-	-	-	565,212
Non-current assets held for sale	-	26,856	-	-	-	-	-	-	26,856
Deferred tax assets	-	54,782	-	-	-	-	-	-	54,782
Total assets	**2,407,969**	**3,128,121**	**435,863**	**372,101**	**74,505**	**35,476**	**13,108**	**102,147**	**6,569,290**
Customer current accounts	82,954	577,694	163,889	332,610	25,490	1,265	-	9,824	1,193,726
Customer investment accounts	144,917	1,720,183	7,976	13,201	-	-	-	20,893	1,907,170
Due to banks	77,992	370,162	405,048	143,872	59	78	-	326,315	1,323,526
Investments from off balance sheet funds	246,854	-	-	-	-	-	-	-	246,854
Provisions	18,000	-	-	55,000	-	-	-	-	73,000
Non-current liabilities held for sale	-	-	-	-	-	-	-	-	-
Accounts payable	576,366	98,253	87,685	10,827	11,216	711	1,105	1,136	787,299
Current tax payable	-	-	-	33	216	-	11	-	260
Deferred tax liabilities	-	3,262	-	-	4,960	-	-	-	8,222
Total liabilities	**1,147,083**	**2,769,554**	**664,598**	**555,543**	**41,941**	**2,054**	**1,116**	**358,168**	**5,540,057**
Net on-balance sheet position	**1,260,886**	**358,567**	**(228,735)**	**(183,442)**	**32,564**	**33,422**	**11,992**	**(256,021)**	**1,029,233**
Contingent liabilities and commitments	**246,844**	**1,477,023**	**280,564**	**34,094**	**16,258**	**11,472**	**-**	**11,100**	**2,077,355**

At 31 December 2011

	United States Dollar	Pakistan Rupee	Bahrain Dinar	Euro	Swiss Franc	Saudi Riyal	Egyptian Pound	Other	Total
Total assets	2,418,648	2,909,966	468,505	414,913	63,892	45,292	3,772	114,286	6,439,274
Total liabilities	1,199,511	2,711,938	649,170	501,752	29,749	1,868	335	349,939	5,444,262
Net on-balance sheet position	1,219,137	198,028	(180,665)	(86,839)	34,143	43,424	3,437	(235,653)	995,012
Contingent liabilities and commitments	317,219	1,484,776	115,467	72,467	15,862	3,958	-	4,357	2,014,106

41. Trust capital

As at 31 December 2012 an amount of $20.0 million (2011: $20 million) has been appropriated from other reserves to fiduciary reserve to cover potential fiduciary risks which might arise in the Group's capacity as fund manager.

42. Comparatives

Certain comparatives have been restated following an error in 2011, where the recording of the IAS 19 pension liability was omitted for three subsidiaries. This error has no impact on the 2011 opening retained earnings.

The impact of the restatement on the 2011 DMI Consolidated Financial Statements is listed below:

	2012	2011 Restated
Accounts payable	773,330	775,652
Trust capital	461,512	460,275
Non-controlling interests	535,822	534,737
Staff costs	107,950	110,416
Loss after income tax attributable to:		
Equity participants	(29,582)	(30,896)
Non-controlling interests	(18,709)	(19,861)

43. Date of authorisation for issue

These consolidated financial statements have been approved for issue by the Board of Supervisors on 2 May 2013 and are subject to approval at the Annual General Meeting, which will be held on 14 June 2013.

44. Principal subsidiaries included in the consolidated financial statements

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

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

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