

## BASE PROSPECTUS



### NOOR SUKUK COMPANY LTD.

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

**U.S.\$3,000,000,000**

### Trust Certificate Issuance Programme

Under the U.S.\$3,000,000,000 trust certificate issuance programme (the **Programme**) described in this Base Prospectus (the **Base Prospectus**), Noor Sukuk Company Ltd. (in its capacity as issuer and trustee, the **Trustee**), subject to compliance with all relevant laws, regulations and directives, may from time to time issue trust certificates (the **Certificates**) denominated in any currency agreed between the Trustee and the relevant Dealer(s) (as defined below). Certificates may only be issued in registered form. The maximum aggregate face amount of all Certificates from time to time outstanding under the Programme will not exceed U.S.\$3,000,000,000 (or its equivalent in other currencies, calculated as provided for in the Programme Agreement described herein), subject to increase as described herein.

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

**An investment in Certificates issued under the Programme involves certain risks. For a discussion of the principal risk factors that may affect the ability of the Trustee to fulfil its obligations under the Certificates, see “Risk Factors”.**

The Certificates to which this Base Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Certificates offered should conduct their own due diligence on the Certificates. If you do not understand the contents of this Base Prospectus you should consult an authorised financial adviser.

Each Series (as defined herein) of Certificates will be constituted by: (i) a master trust deed (the **Master Trust Deed**) dated 14 April 2015 entered into by the Trustee, the Bank and BNY Mellon Corporate Trustee Services Limited as delegate of the Trustee (in such capacity, the **Delegate**); and (ii) a supplemental trust deed (each a **Supplemental Trust Deed**) in relation to the relevant Series. Certificates of each Series confer on the holders of the Certificates from time to time (the **Certificateholders**) the right to receive payments (as more particularly described herein) arising from the assets of a trust declared by the Trustee in relation to the relevant Series (the **Trust**).

This Base Prospectus has been approved by the Dubai Financial Services Authority (the **DFSA**) under Rule 2.6 of the DFSA’s Markets Rules (the **Markets Rules**) and is therefore an Approved Prospectus for the purposes of Article 14 of the DIFC Law No.1 of 2012 (the **Markets Law**). Application has also been made to the DFSA for Certificates issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list of securities (the **DFSA Official List**) maintained by the DFSA and to NASDAQ Dubai for such Certificates to be admitted to trading on NASDAQ Dubai. References in this Base Prospectus to Certificates being listed (and all related references) shall mean that such Certificates have been admitted to trading on NASDAQ Dubai and have been admitted to the DFSA Official List.

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

Notice of the aggregate face amount of the Certificates, periodic distribution amounts (if any) payable in respect of the Certificates, the issue price of the Certificates and certain other information which is applicable to each Series will be set out in a final terms document (the **applicable Final Terms**) which, with respect to Certificates to be listed on NASDAQ Dubai, will be delivered to the DFSA and NASDAQ Dubai.

The DFSA does not accept any responsibility for the content of the information included in this Base Prospectus, including the accuracy or completeness of such information. The liability for the content of this Base Prospectus lies with the Trustee and the Bank. The DFSA has also not assessed the suitability of the Certificates to which this Base Prospectus relates to any particular investor or type of investor and has not determined whether they are *Shari’a* compliant. If you do not understand the contents of this Base Prospectus or are unsure whether the Certificates to which this Base Prospectus relates are suitable for your individual investment objectives and circumstances, you should consult an authorised financial adviser.

Each Series of Certificates will initially be represented by a global certificate in registered form (a **Global Certificate**). Global Certificates will be deposited on the relevant issue date with, and registered in the name of a nominee for, a common depositary (the **Common Depositary**) on behalf of Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). The provisions governing the exchange of interests in Global Certificates for definitive Certificates are described in “*Summary of Provisions relating to the Certificates while in Global Form*”.

The Bank has been assigned long term ratings of “A-” with a “stable outlook” by Fitch Ratings Limited (**Fitch**). The United Arab Emirates has been assigned a credit rating of “Aa2” with a “stable outlook” by Moody’s Investors Service Singapore Pte. Ltd.

Moody’s Investors Service Singapore Pte. Ltd. is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). The rating has been endorsed by Moody’s Investors Services Ltd (**Moody’s**) in accordance with the CRA Regulation. Each of Fitch and Moody’s is established in the European Union and is registered under the CRA Regulation. As such, each of Fitch and Moody’s is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. A Series of Certificates to be issued under the Programme may be rated or unrated. Where a Series of Certificates is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the rating applicable to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

The transaction structure relating to the Certificates (as described in this Base Prospectus) has been approved by the Fatwa and Shari’a Supervisory Board of the Bank and the Shariah Supervisory Committee of Standard Chartered Bank. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own *Shari’a* advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with *Shari’a* principles.

**Global Co-ordinator**  
**Standard Chartered Bank**

**Arrangers**

**Citigroup**

**Noor Bank**

**Standard Chartered Bank**

**Dealers**

**Citigroup**

**Dubai Islamic Bank**

**Emirates NBD Capital**

**Noor Bank**

**Sharjah Islamic Bank**

**Standard Chartered Bank**

The date of this Base Prospectus is 14 April 2015

This Base Prospectus complies with the requirements in Part 2 of the Markets Law and Chapter 2 of the Markets Rules and comprises a base prospectus for the purpose of giving information with regard to the Trustee, the Bank and the Certificates which, according to the particular nature of the Trustee, the Bank and the Certificates, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Trustee and the Bank.

The Trustee and the Bank accept responsibility for the information contained in this Base Prospectus and the applicable Final Terms for each Series of Certificates issued under the Base Prospectus. To the best of the knowledge of the Trustee and the Bank (each having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. The Base Prospectus should be read and construed together with any amendments or supplements hereto and, in relation to any Series of Certificates, should be read and construed together with the applicable Final Terms.

No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus in connection with the Programme or the issue or sale of the Certificates and, if given or made, such information or representation must not be relied upon as having been authorised by the Trustee, the Bank, the Arrangers or any of the Dealers. Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Trustee or the Bank since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Trustee or the Bank since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Base Prospectus and the offering or sale of the Certificates in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by the Trustee, the Bank, the Arrangers and the Dealers to inform themselves about and to observe any such restrictions. The Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**). Subject to certain exceptions, Certificates may not be offered or sold within the United States or to or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (**Regulation S**)). For a description of certain restrictions on offers and sales of Certificates and on distribution of this Base Prospectus, see "*Subscription and Sale*".

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of the Trustee, the Bank, the Arrangers or the Dealers to subscribe for, or purchase, any Certificates.

To the fullest extent permitted by law, none of the Arrangers or the Dealers accepts any responsibility for the contents of this Base Prospectus or for any other statement made, or purported to be made, by an Arranger or a Dealer or on their behalf in connection with the Trustee, the Bank or the issue and offering of the Certificates. Each Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Base Prospectus or any such statement, including in relation to the information contained in this Base Prospectus or any other information provided by the Trustee or the Bank in connection with the Programme or the issue or offering of Certificates thereunder. Neither this Base Prospectus nor any other such statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Trustee, the Bank, the Arrangers or the Dealers that any recipient of this Base Prospectus or any other such statements should purchase the Certificates. Each potential purchaser of Certificates should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Certificates should be based upon such investigation as it deems necessary. None of the Arrangers or the Dealers undertakes to review the financial condition or affairs of the Trustee or the Bank during the life of the arrangements contemplated by this Base Prospectus nor to advise any investor or potential investor in the Certificates of any information coming to the attention of any of the Arrangers or the Dealers.

The Certificates may not be a suitable investment for all investors. Each potential investor in any Certificates must determine the suitability of that investment in light of its own circumstances. In

particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisors, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the relevant Certificates, the merits and risks of investing in the relevant Certificates and the information contained in this Base Prospectus or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Certificates and the impact such investment will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Certificates, including where any Dissolution Distribution Amount or Periodic Distribution Amount (each as defined herein) payments are payable in one or more currencies, or where the currency for Dissolution Distribution Amount or Periodic Distribution Amount payments are different from the potential investor's currency;
- (iv) understands thoroughly the terms of the relevant Certificates and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) is able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

The Certificates are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Certificates which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Certificates will perform under changing conditions, the resulting effects on the value of such Certificates and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Certificates are legal investments for it; (ii) Certificates can be used as collateral for various types of borrowing or raising of finance; and (iii) other restrictions apply to its purchase or pledge of any Certificates. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Certificates under any applicable risk-based capital or similar rules.

No comment is made or advice given by the Trustee, the Bank, the Arrangers, the Dealers, the Delegate or the Agents (as defined under the terms and conditions of the Certificates (the **Conditions**)) in respect of taxation matters relating to any Certificates or the legality of the purchase of the Certificates by an investor under any applicable law.

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

**In connection with the issue of any Series, the Dealer or Dealers (if any) named as the stabilisation manager(s) (the *Stabilisation Manager(s)*) (or any person acting on behalf of any Stabilisation Manager(s)) in the applicable Final Terms may over-allot Certificates or effect transactions with a view to supporting the market price of the Certificates at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager(s) (or any person acting on behalf of any Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the issue date of the relevant Series and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Series and 60 days after the date of the allotment of the relevant Series. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or any person acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.**

## CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

This Base Prospectus contains “forward-looking statements” – that is, statements related to future, not past, events. In this context, forward-looking statements often address the Bank’s expected future business and financial performance, and often contain words such as “expect”, “anticipate”, “intend”, “may”, “plan”, “believe”, “seek” or “will”. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For the Bank, particular uncertainties that could adversely affect its future results include: the behaviour of financial markets and macro-economic conditions, including fluctuations in interest, profit and exchange rates, commodity and equity prices and the value of financial assets; continued volatility and further deterioration of the capital markets; the commercial and consumer credit environment including credit risks and, in particular, the impact of a higher level of credit defaults arising from adverse economic conditions, the impact of provisions and impairments and concentration of the Bank’s portfolio of financing and investment assets; liquidity risks, including the ability of the Bank to meet its contractual and contingent cash flow obligations or the inability to fund its operations; the impact of laws and regulation (including any change thereto) and regulatory, investigative and legal actions; strategic actions, including acquisitions and future integration of acquired businesses and government policy affecting the Bank’s business activities; future financial performance of the banking, financial services and Islamic finance industries; and numerous other matters of national, regional and global scale, including those of a political, economic, business and competitive nature. These uncertainties may cause the Bank’s actual future results to be materially different than those expressed in its forward-looking statements. Although the Bank believes that the expectations, estimates and projections reflected in the Bank’s forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise including those which the Bank has identified in this Base Prospectus, or if any of the Bank’s underlying assumptions prove to be incomplete or inaccurate, the Bank’s actual future results may be materially different than those expressed in its forward-looking statements.

The forward-looking statements in this Base Prospectus speak only as at the date of this Base Prospectus. Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “*Risk Factors*”. Without prejudice to any requirements under applicable laws and regulations, the Bank expressly disclaims any obligation or undertaking to disseminate after the date of this Base Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any forward-looking statement is based.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### PRESENTATION OF FINANCIAL INFORMATION

#### Historical financial statements

The financial statements relating to the Bank and included in this Base Prospectus are:

- the audited financial statements as at and for the year ended 31 December 2014 (the **2014 Financial Statements**); and
- the audited financial statements as at and for the year ended 31 December 2013 (the **2013 Financial Statements** and, together with the 2014 Financial Statements, the **Financial Statements**).

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (**IFRS**) issued by the International Accounting Standards Board.

The Bank’s financial year ends on 31 December and references in this Base Prospectus to **2012**, **2013** and **2014** are to the 12 month period ending on 31 December in each such year.

The Trustee is a special purpose company established in the Cayman Islands. The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint an auditor.

#### Comparability of financial information

As explained in note 28 to the 2014 Financial Statements and in the table below, the 2013 financial information included in the 2013 Financial Statements differs from the 2013 financial information included, for comparative purposes, in the 2014 Financial Statements. The 2013 financial information in the 2014 Financial Statements reflects certain re-classifications applied retrospectively so that the financial information for 2013 and 2014 was comparable. Thus, the 2013 financial information

included in this Base Prospectus (unless otherwise expressly stated, and other than in the 2013 Financial Statements) is extracted from the 2014 Financial Statements.

The 2012 financial information included in this Base Prospectus (other than in the 2013 Financial Statements) has been reclassified only for the purpose of including it in this Base Prospectus to conform with the 2013 and 2014 presentation requirements, and hence differs from the 2012 financial information included, for comparative purposes, in the 2013 Financial Statements.

The following table shows the reclassifications discussed above.

	2012 <sup>(1)</sup>		2013		2014
	Old	New <sup>(1)</sup>	Audited <sup>(2)</sup>	Re-presented <sup>(3)</sup>	
<i>(AED million)</i>					
<b>Income statement</b>					
Staff costs .....	(142.6)	(186.8)	(183.1)	(235.0)	(340.0)
General and administrative expenses .....	(133.6)	(89.5)	(181.3)	(129.4)	(127.3)
<b>Statement of financial position</b>					
Customer deposits .....	14,823.1	14,052.2	19,434.5	18,663.6	23,851.0
Wakalah term deposits .....	—	770.9	—	770.9	544.2
<b>Statement of cash flows</b>					
Net cash generated from operating activities .....	932.8	2,469.7	1,874.1	(50.4)	1,037.4
Cash and cash equivalents at beginning of year .....	165.9	721.6	800.2	2,892.8	2,857.0
Cash and cash equivalents at end of year .....	800.2	2,892.8	2,688.9	2,857.0	2,182.7

Note:

(1) The 2012 financial information included in this column reflects the reclassifications made to conform with the presentation requirements of the 2014 Financial Statements. The 2012 financial information in this column therefore differs from the 2012 financial information included, for comparative purposes, in the 2013 Financial Statements (which appears in the column titled “old” in the table above).

(2) The 2013 financial information included in this column is extracted from the 2013 Financial Statements.

(3) The 2013 financial information included in this column is extracted from the 2014 Financial Statements.

The income statement reclassification relates to the reallocation of outsourced staff costs from general and administrative expenses to staff costs in accordance with industry practice.

The statement of financial position reclassification was made to present separately on the face of the Bank’s statement of financial position Tier 2 wakalah term deposits from customer deposits.

The statement of cash flows reclassified balances under “Due to banks” and “Due from banks” which have contractual maturity of less than three months as cash and cash equivalents. See also note 4 to the 2014 Financial Statements.

The Bank has also reclassified in 2014, 2013 comparative amounts of *tawarruq* and certain *wakala* contracts as *murabahah* to appropriately conform to the presentation in the 2014 Financial Statements.

#### Auditors

The Financial Statements have been audited by PricewaterhouseCoopers, Dubai Branch (**PricewaterhouseCoopers**), independent auditors, in accordance with International Standards on Auditing. PricewaterhouseCoopers have issued unqualified reports on the Financial Statements.

#### Non-GAAP measures

This Base Prospectus includes certain references to non-GAAP financial measures such as the Bank’s “net profit margin”, “financing/total assets”, “customer deposits/total funding”, “financing/customer deposits”, “liquid assets ratio”, “cost to income ratio”, “return on equity”, “return on assets”, “impaired financings ratio”, “impairment provisions/impaired financings”, “average earning assets”, “average funding”, “average yield on earning assets”, “average cost of funds”, “capital adequacy

ratio”; and “Tier 1 risk assets ratio”. The Bank uses these non-GAAP financial measures to evaluate performance, and this additional financial information is presented in this Base Prospectus. This information is not presented in accordance with IFRS and should be viewed as supplemental to the Bank’s financial statements. Investors are cautioned not to place undue reliance on this information and should note that the “net profit margin”, “financing/total assets”, “customer deposits/total funding”, “financing/ customer deposits”, “liquid assets ratio”, “cost to income ratio”, “return on equity”, “return on assets”, “impaired financings ratio”, “impairment provisions /impaired financings”, “average earning assets”, “average funding”, “average yield on earning assets”, “average cost of funds”, “capital adequacy ratio”, and “Tier 1 risk assets ratio” as calculated by the Bank may differ materially from similarly titled financial measures reported by other companies, including the Bank’s competitors.

## PRESENTATION OF OTHER INFORMATION

### Certain defined terms

Capitalised terms which are used but not defined in any section of this Base Prospectus have the meaning attributed to them in the Conditions or any other section of this Prospectus in which they are defined. In addition, the following terms used in this Base Prospectus have the meanings defined below:

- references to **Abu Dhabi** are to the Emirate of Abu Dhabi;
- references to **Dubai** are to the Emirate of Dubai;
- references to the **GCC** are to the Gulf Co-Operation Council (which comprises the Kingdom of Bahrain (**Bahrain**), the State of Kuwait (**Kuwait**), the Sultanate of Oman (**Oman**), the State of Qatar (**Qatar**), the Kingdom of Saudi Arabia (**Saudi Arabia**) and the United Arab Emirates);
- references to a **Member State** are references to a Member State of the European Economic Area;
- references to the **MENA region** are to the Middle East and North Africa region;
- references to the **UAE** are to the United Arab Emirates;
- references to **U.S. dollars** and **U.S.\$** are to the lawful currency of the United States of America;
- references to **AED** and **dirham** are to the lawful currency of the United Arab Emirates;
- references to **euro** and **€** refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended; and
- references to a **billion** are to a thousand million.

### Certain conventions

Certain figures and percentages included in this Base Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

The dirham has been pegged to the U.S. dollar since 22 November 1980. The current mid-point between the official buying and selling rates for the dirham is at a fixed rate of AED 3.6725 = U.S.\$1.00. All U.S. dollar translations of dirham amounts appearing in this Base Prospectus have been translated at this fixed exchange rate. Such translations should not be construed as representations that dirham amounts have been or could be converted into U.S. dollars at this or at any other rate of exchange.

Unless otherwise indicated, the financial information contained in this Base Prospectus has been expressed in dirham. The Bank’s functional currency is dirham and the Bank prepares its financial statements in dirham.

### Certain publicly available information

Certain information under the headings “*Risk factors*”, “*Financial review*”, “*Overview of the UAE and Dubai*” and “*The UAE banking sector and regulations*” has been extracted from information provided by:

- in the case of “*Risk factors*”, the International Monetary Fund (the **IMF**), the UAE Central Bank, the UAE National Bureau of Statistics (the **NBS**) and the Organisation of Oil Exporting Countries (**OPEC**);
- in the case of “*Financial review*”, the IMF;
- in the case of “*Overview of the United Arab Emirates*”, the IMF, the NBS and OPEC; and
- in the case of “*The UAE banking sector and regulations*”, the NBS, the IMF and the UAE Central Bank,

and, in each case, the relevant source of such information is specified where it appears under those headings. None of the Dealers, the Trustee or the Bank accepts responsibility for the factual correctness of any such statistics or information but both the Trustee and the Bank accept responsibility for accurately reproducing such statistics and, so far as the Trustee and the Bank are aware and have been able to ascertain from such statistics, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Statistical information relating to the UAE and Dubai included in this Base Prospectus has been derived from official public sources. All such statistical information may differ from that stated in other sources for a variety of reasons, including the use of different definitions and cut-off times. This data may subsequently be revised as new data becomes available and any such revised data will not be circulated by the Bank to investors who have purchased any Certificates.

Where information has not been independently sourced, it is the Bank’s own information.

#### **No incorporation of website information**

The Bank’s website is [www.noorbank.com](http://www.noorbank.com). The information on this website or any other website mentioned in this Base Prospectus or any website directly or indirectly linked to these websites has not been verified and is not incorporated by reference into this Base Prospectus, and investors should not rely on it.

#### **NOTICE TO RESIDENTS IN THE UK**

**Any Certificates to be issued under the Programme which do not constitute “alternative finance investment bonds” (AFIBs) within the meaning of Article 77A of the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) Order 2010 will represent interests in a collective investment scheme (as defined in the Financial Services and Markets Act 2000 (the FSMA)) which has not been authorised, recognised or otherwise approved by the United Kingdom Financial Conduct Authority. Accordingly, this Base Prospectus is not being distributed to, and must not be passed on to, the general public in the United Kingdom.**

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

**Persons of any other description in the United Kingdom may not receive and should not act or rely on this Base Prospectus, any Final Terms or any other marketing materials in relation to the Certificates. Potential investors in the United Kingdom in any Certificates which are not AFIBs are advised that all, or most, of the protections afforded by the United Kingdom regulatory system will not apply to an investment in such Certificates and that compensation will not be available under the United Kingdom Financial Services Compensation Scheme. Any individual intending to invest in any investment described**

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

#### **NOTICE TO RESIDENTS IN BAHRAIN**

In relation to investors in Bahrain, Certificates issued in connection with this Base Prospectus and related offering documents may only be offered in registered form to existing accountholders and accredited investors as defined by the Central Bank of Bahrain (the *CBB*) in Bahrain where such investors make a minimum investment of at least U.S.\$100,000 or any equivalent amount in other currency or such other amount as the CBB may determine.

This Base Prospectus does not constitute an offer of securities in Bahrain in terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (decree Law No. 64 of 2006). This Base Prospectus and related offering documents have not been and will not be registered as a prospectus with the CBB. Accordingly, no securities may be offered, sold or made the subject of an invitation for subscription or purchase nor will this Base Prospectus or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase securities, whether directly or indirectly, to persons in Bahrain, other than to accredited investors for an offer outside Bahrain.

The CBB has not reviewed, approved or registered this Base Prospectus or related offering documents and it has not in any way considered the merits of the Certificates to be offered for investment, whether in or outside Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this Base Prospectus and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this Base Prospectus. No offer of securities will be made to the public in Bahrain and this Base Prospectus must be read by the addressee only and must not be issued, passed to, or made available to the public generally.

#### **NOTICE TO RESIDENTS IN SAUDI ARABIA**

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

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

#### **NOTICE TO RESIDENTS IN QATAR**

This Base Prospectus does not and is not intended to constitute an offer, sale or delivery of bonds or other debt financing instruments under the laws of Qatar and has not been and will not be reviewed or approved by or registered with the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority or the Qatar Central Bank in accordance with their regulations or any other regulations in Qatar. The Certificates are not and will not be traded on the Qatar Exchange.

#### **NOTICE TO RESIDENTS IN THE CAYMAN ISLANDS**

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the Certificates and this Base Prospectus shall not be construed as an invitation to any member of the public of the Cayman Islands to subscribe for the Certificates.

#### **NOTICE TO RESIDENTS IN MALAYSIA**

Any Certificates to be issued under the Programme may not be offered for subscription or purchase and no invitation to subscribe for or purchase such Certificates in Malaysia may be made, directly or indirectly, and this Base Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia other than to persons falling within categories set out in Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3), read together with Schedule 9 or Section 257 (3) of the Capital Market and Services Act 2007 of Malaysia (CMSA).

**The Securities Commission of Malaysia (the *SC*) shall not be liable for any non-disclosure on the part of the Trustee or the Bank and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Base Prospectus.**

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## RISK FACTORS

*Each of the Trustee and the Bank believes that the following factors may affect both the Trustee's ability to pay amounts owing under Certificates issued under the Programme and the Bank's ability to satisfy its obligations under the Transaction Documents. All of these factors are contingencies which may or may not occur and neither the Trustee nor the Bank is in a position to express a view on the likelihood of any such contingency occurring. However, should any of these factors occur, it would have the potential to materially adversely affect the Bank's business, results of operations, financial condition and prospects and thereby affect its ability to perform its obligations in respect of the Transaction Documents.*

*Factors which each of the Trustee and the Bank believes may be material for the purpose of assessing the market risks associated with Certificates issued under the Programme are also described below.*

*Each of the Trustee and the Bank believes that the non-exhaustive list of factors described below represent the material risks inherent in investing in Certificates, but the inability of the Trustee to pay Periodic Distribution Amounts, Dissolution Distribution Amounts or other amounts on or in connection with any Certificates may occur for other reasons which may not be considered significant risks by the Trustee and/or the Bank based on information currently available to them or which they may not currently be able to anticipate. Neither the Trustee nor the Bank represents that the statements below regarding the risks of holding any Certificates are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.*

### **RISKS RELATED TO THE TRUSTEE**

#### **The Trustee has no operating history and no material assets and will depend on receipt of payments from the Bank to make payments to Certificateholders**

The Trustee was incorporated under the laws of the Cayman Islands on 2 March 2015 as an exempted company with limited liability and has no operating history. The Trustee has not engaged, and will not engage, in any business activity other than the issuance of Certificates under the Programme, the acquisition of Trust Assets as described herein, acting in the capacity as Trustee, the issuance of shares in its capital and other related activities as required under the Transaction Documents. Because the Trustee is a Cayman Islands company, it may not be possible for Certificateholders to effect service of process on it outside the Cayman Islands.

The Trustee's only material assets, which will be held on trust for Certificateholders, will be the Trust Assets in respect of each Series of Certificates issued, including the obligation of the Bank to make payments to the Trustee under the Transaction Documents relating to each Series. Therefore, the Trustee is subject to the same risks that affect the Bank to the extent that those risks limit the Bank's ability to satisfy in full and on a timely basis its obligations under the Transaction Documents.

The ability of the Trustee to pay amounts due on Certificates is dependent upon receipt by the Trustee from the Bank of amounts to be paid pursuant to the relevant Transaction Documents, which may not be sufficient to meet all claims under the Certificates and the relevant Transaction Documents. See "*—Risks relating to the Bank and its ability to fulfil its obligations under the Transaction Documents*".

### **RISKS RELATING TO THE BANK AND ITS ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE TRANSACTION DOCUMENTS**

#### **The majority of the Bank's business operations and assets are located in the UAE, which exposes it to UAE and MENA region economic and political risks**

Almost all of the Bank's business operations and assets are located in the UAE. Accordingly, its results of operations are generally affected by financial, economic and political developments in or affecting the UAE and the MENA region and, in particular, the Bank is, and expects to continue to be, affected by the level of economic activity in the UAE.

The UAE has seen significant economic growth and relative political stability since it was founded in 1971. However, there can be no assurance that such growth or stability will continue, particularly in light of the significant adverse financial and economic conditions experienced worldwide commencing in early 2008. Those conditions resulted in a 5.2 per cent. decline in the UAE's real GDP in 2009 and real GDP growth of only 1.6 per cent in 2010 according to the IMF October 2014 World Economic Database. Consequently, certain sectors of the UAE economy, such as financial institutions

that had benefitted from previous high rates of growth, were materially adversely affected in 2009 and the immediately following years. The Bank commenced operations in January 2008, and was significantly negatively impacted by the global financial crisis which commenced later that year. In particular, like most other UAE banks, the Bank was affected by the liquidity squeeze and increased impairments. In common with other UAE banks, the Bank accepted UAE Ministry of Finance/Central Bank support funding. The Bank later converted the funding into Tier II capital in accordance with its terms and, during 2014, the Bank repaid the funding in full.

Although economic conditions in the UAE have generally improved since 2010, recent significant declines in the international prices of oil and gas have the potential to significantly negatively impact the UAE economy, particularly if they are sustained or combined with other shocks, such as a significant fall in house prices or stock market valuations. See “*The UAE’s economy is highly dependent on its oil revenue*” below. In addition, a general downturn or instability in certain sectors of the UAE economy or the regional economy could have an adverse effect on the Bank’s business, results of operations, financial condition and prospects.

Investors should also note that the Bank’s business and financial performance could be adversely affected by political, economic or related developments both within and outside the MENA region because of inter-relationships within the global financial markets. Moreover, while the UAE government’s policies have generally resulted in improved economic performance, there can be no assurance that such level of performance can be sustained. No assurance can be given that the Dubai government or the UAE government will not implement restrictive fiscal or monetary policies or regulations, including changes with respect to interest/profit rates, new legal interpretations of existing regulations or the introduction of taxation or exchange controls, which could have a material adverse effect on the Bank’s business, financial condition and results of operations.

The Bank’s business may also be negatively affected if there are regional, geo-political or economic events that prevent it from delivering its services. While the UAE is seen as a relatively stable political environment, certain other jurisdictions in the MENA region are not. Instability in the MENA region may result from a number of factors, including government or military regime change, civil unrest or terrorism. In particular, since early 2011 there has been political unrest in a range of countries in the Middle East, including Algeria, Bahrain, Egypt, Iraq, Libya, Oman, Saudi Arabia, Syria, Tunisia and Yemen. This unrest has ranged from public demonstrations to, in extreme cases, armed conflict and the overthrow of existing leadership and has given rise to increased political uncertainty across the region. There can be no assurance that extremists or terrorist groups will not escalate violent activities in the MENA region or that the governments of the MENA region will be successful in maintaining the prevailing levels of domestic order and stability. Any of the foregoing circumstances could have a material adverse effect on the political and economic stability of the MENA region and, in particular, could impact the numbers of tourists that choose to visit the UAE and the number of businesses interested in doing business in the UAE. It is not generally possible to predict the occurrence of events or circumstances, such as war or hostilities, or the impact of such occurrences, and no assurance can be given that the Bank would be able to sustain the profitable operation of its business if adverse political events or circumstances that impacted the UAE were to occur.

#### **The UAE’s economy is highly dependent upon its oil revenue**

The UAE’s economy is highly dependent upon oil revenue. According to OPEC data, as at 31 December 2013, the UAE had 6.6 per cent. of proven global oil reserves which generated exports valued at U.S.\$379 billion, the highest of all OPEC member countries.

Crude oil prices fluctuate in the future in response to changes in many factors over which the Bank has no control. Factors that may affect the price of crude oil include, but are not limited to:

- economic and political developments in oil producing regions, particularly in the Middle East;
- global and regional supply and demand, and expectations regarding future supply and demand, for oil products;
- the ability of members of OPEC and other crude oil producing nations to agree upon and maintain specified global production levels and prices;
- the impact of international environmental regulations designed to reduce carbon emissions;
- other actions taken by major crude oil producing or consuming countries;

- prices and availability of alternative fuels, global economic and political conditions, prices and availability of new technologies using alternative fuels; and
- global weather and environmental conditions.

During the second half of 2008 and into 2009, OPEC Reference Basket crude oil prices fell by approximately 70 per cent. from their peak level of U.S.\$140 per barrel reached in July 2008 to an annual average of approximately U.S.\$61 per barrel for the year ended 31 December 2009 and U.S.\$77 per barrel for 2010, according to OPEC. This fall in prices was a significant contributor to the decline in UAE GDP in 2009 and the low level of GDP in 2010 and also negatively impacted both the Abu Dhabi and UAE federal budgets. Based on the same source, OPEC Reference Basket crude oil prices averaged U.S.\$109 per barrel in 2012 and U.S.\$106 per barrel in 2013. However, since June 2014, when the monthly average OPEC Reference Basket price per barrel was U.S.\$108, crude oil prices have fallen by approximately 50 per cent. to a monthly average price of U.S.\$54 in February 2015.

If these low prices are sustained for a significant period of time, this could have a significant negative effect on the UAE's economy and a corresponding negative impact on the Bank's business, financial condition and results of operations, including through increased impairment charges in future periods as weaker economic conditions impact many of the Bank's customers.

**The Bank is exposed to significant credit risk which could result in significant credit losses in future periods**

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial exposure or instrument fails to meet its contractual obligations. Credit risks arising from adverse changes in the credit quality and recoverability of financings and amounts due from counterparties are inherent in a wide range of the Bank's businesses. Credit risks could arise from a deterioration in the credit quality of specific counterparties, from a general deterioration in local or global economic conditions or from systemic risks within the financial system in which the Bank operates, all of which could affect the recoverability and value of the Bank's assets and require an increase in its impairment provisions which could have a material adverse effect on its business, results of operations, financial condition and prospects. See "*Risk management—Credit risk management*" for a description of the Bank's exposure to, and the policies, systems and procedures it has in place to manage, credit risk.

**The Bank's financing portfolio is subject to significant concentration risks**

The Bank's total financing portfolio constituted AED 18.0 billion, or 62.2 per cent. of its total assets, at 31 December 2014. Of this financing, 92.8 per cent was made to customers located in the UAE and the Bank envisages that it will retain such concentration over the short to medium term. In addition, the Bank's financing portfolio is concentrated in particular industry sectors. For example, at 31 December 2014, consumer financings and credit cards comprised 26.6 per cent. of the total portfolio, with; trade; the financial institutions sector; construction and real estate; and transport, storage and communications accounting for 20.6 per cent., 18.6 per cent., 10.8 per cent. and 9.0 per cent., respectively.

The Bank's financing portfolio also has significant individual concentrations, with the Bank's 20 largest financings representing 21.7 per cent. of its total assets at 31 December 2014. In addition, government and government related entities constitute 21.6 per cent. of the Bank's financing portfolio, see "*Financial review—Analysis of certain statement of financial position items—Investments in Islamic financing instruments*".

In the UAE, certain sectors (including the financial services and real estate sectors) and certain regions (including Dubai) were more significantly affected than others by the global financial crisis that commenced in early 2008. Similarly, concentrations in the Bank's financing portfolio subject it to enhanced risks arising from any default by one or more of its larger obligors and from negative developments affecting particular sectors of the UAE economy (including the financial services sector) to which it is significantly exposed. See "*Financial review—Analysis of certain statement of position items—Investments in Islamic financing instruments*" for tables showing the industry sector breakdown of the Bank's gross financing portfolio.

**The Bank has experienced rapid growth in its financing portfolio, which increases its credit risk exposure**

The Bank's total financing portfolio has grown rapidly since its establishment in January 2008 and was AED 10.9 billion at 31 December 2012, AED 14.3 billion at 31 December 2013 and

AED 18.0 billion at 31 December 2014. In 2013 and 2014, the Bank's financing portfolio increased by 31.9 per cent. and 25.7 per cent., respectively. This increase in credit exposure requires constant emphasis by the Bank on credit quality, the adequacy of its provisioning levels and the continued development of financial and management controls. In addition, the offering of a wider range of products by the Bank as part of its strategy of continuing to grow its core banking activities organically within the UAE may also increase the credit risk exposure in its financing portfolio. Any failure to successfully manage growth and development and to maintain the quality of its financing assets could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

**The Bank's non-performing financings may increase, which would have an adverse effect on its profitability**

The Bank's non-performing financings (NPFs) as at 31 December 2014 represented 7.3 per cent. of its total gross financings. The Bank follows UAE Central Bank guidelines to determine NPFs. These guidelines specify that a financing should be classified as an NPF where any payment in respect of it is more than 90 days past due. In addition, in certain instances where negative information is available, the Bank may classify a financing as NPF irrespective of the tenor or whether the account is more than 90 days past due or not. The Bank continues to actively manage and monitor its financing portfolio but there can be no assurance that in the future the Bank will be able to maintain its NPFs at these or lower levels. Factors which may contribute to an increase in the amount of the Bank's NPFs include the expected growth in its financing portfolio and any future slowdown or recession in the UAE economy. Should the Bank's NPFs increase, its impairment charges in respect of its financing portfolio are also likely to increase which would have a material adverse effect on its business, results of operations, financial condition and prospects.

**The Bank is subject to liquidity risk which could materially adversely affect its results of operations and, in an extreme case, could threaten its solvency**

Liquidity risk is the risk that the Bank will not be able to honour its obligations when they fall due or will only be able to secure funding at excessive cost which then adversely impacts its profitability. Liquidity risk arises from the inability to manage unplanned decreases or changes in funding sources.

The Bank's customer deposits amounted to AED 23.9 billion and constituted 92.7 per cent. of its total liabilities as at 31 December 2014 compared to AED 18.7 billion, or 90.1 per cent. of its total liabilities, at 31 December 2013 and AED 14.1 billion, or 89.1 per cent. of its total liabilities, at 31 December 2012. As is the normal practice in the UAE banking industry, the deposits which the Bank accepts from its customers are short-term in nature. However, it is also normal in the UAE banking industry for these short-term deposits to be rolled over on maturity such that, in practice, a significant portion have actual maturities of a longer duration. By contrast, the Bank's advances have more diversified maturities (see note 27.2 to the 2014 Financial Statements which illustrates the Bank's maturity gaps). Accordingly, there is a risk that, if a significant number of the Bank's customers choose not to roll over their deposits at any time or withdraw their deposits at a rate faster than the rate at which obligors repay financing provided by the Bank, the Bank could experience difficulties in funding those lost deposits. The risk of this happening is likely to increase at times of poor economic performance when the Bank's customers are more likely to need cash and it may be more expensive for the Bank to fund those withdrawals from other sources.

As at 31 December 2014, the Bank's 20 largest depositors accounted for a large proportion of its customer deposits and were principally government or government-related entities in the UAE. Any withdrawal of a significant portion of these large deposits may have an adverse effect on the Bank's financial condition and results of operations as well as on its ability to meet the UAE Central Bank target ratio for financings to stable resources of 100 per cent. or any similar Basel III-based ratio introduced by the UAE Central Bank in the future

Liquidity risk in Islamic banks is heightened by the fact that less *Shari'a*-compliant liquidity products are available to them than is the case for conventional banks. Cash and cash equivalent balances and a portfolio of Islamic sukuk investments which together aggregated AED 5.1 billion at 31 December 2014 compared to AED 4.7 billion at 31 December 2013 are available for short-term liquidity management. There is no assurance that the Bank will not experience significant liquidity constraints in the future and any such constraints could have a material adverse effect on its business, results of operations, financial condition or prospects. See "*Risk management- Liquidity risk management*" for a description of the Bank's exposure to, and the policies, systems and procedures it has in place to manage, liquidity risk.

**The Bank is exposed to market risks which could have a negative impact on its equity or profitability**

Market risk is the risk that changes in financial market prices and rates, in particular interest and profit rates and foreign exchange rates, will cause fluctuations in the fair value or future cash flows of the financial instruments to which the Bank is a party. The risk arises from imbalances in the Bank's balance sheet as well as from open positions in profit rate and currency products, each of which is exposed to general and specific market movements (such as profit rates, credit spreads and foreign exchange rates) and changes in the level of volatility of market rates or prices. For example, the Bank's principal profit earning assets are its investments in Islamic financing instruments and its investments in Islamic sukuk whilst its principal profit paying liabilities are its depositors' accounts. Any significant movements in profit rates that result in either (i) the profit rates that the Bank earns on its profit earning assets reducing faster than any corresponding reduction in the profit rates which the Bank pays on its profit paying liabilities or (ii) the rates which the Bank pays on its profit paying liabilities increasing faster than the Bank is able to increase the profit rates which it earns on its profit earning assets could have a material adverse effect on its business, results of operations, financial condition or prospects. See "*Risk management—Market risk management*" for a description of the Bank's exposure to, and the policies, systems and procedures it has in place to manage, market risk.

The Bank maintains its accounts, and reports its results, in dirham. The dirham, along with the currencies of most of the other GCC countries, is pegged at a fixed exchange rate to the U.S. dollar. In the case of the UAE, this currency peg has existed since 22 November 1980. However, there can be no assurance that the UAE government will not de-peg the dirham in the future or that the existing peg will not be adjusted in a manner that materially adversely affects the Bank's results of operations and financial condition. Any such de-pegging or adjustment could have a material adverse effect on the Bank's business, results of operation, financial condition and prospects.

**The Bank is exposed to operational and legal risk which could result in damage to its reputation as well as financial losses**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems (including as a result of external events). Operational risks and losses can result from fraud, malicious interference with systems or processes as a result of cybercrime or other causes, error by employees (including failure to document transactions properly or to obtain proper internal authorisation), failure to comply with regulatory requirements and conduct of business rules, the failure of internal systems, equipment and external systems (such as those of the Bank's counterparties or vendors) and the occurrence of natural disasters. Although the Bank has implemented risk controls and loss mitigation strategies and substantial resources are devoted to developing efficient procedures (including operational manuals, internal controls, and periodic reviews and audits), it is not possible to entirely eliminate operational risk. Accordingly, there is no assurance that the Bank will not experience significant lapses in operational controls in the future and any such lapses could have a material adverse effect on its reputation, business, results of operations, financial condition or prospects. See "*Risk management—Operational risk management*" for a description of the Bank's exposure to, and the policies, systems and procedures it has in place to manage, operational risk.

The Bank may also face legal risk from private and regulatory actions brought against it. Generally, as a participant in the financial services industry, it is likely that the Bank may experience, from time to time, both litigation and enhanced regulatory scrutiny related to its businesses and operations. The Bank seeks to mitigate this risk through the use of standardised documentation and related policies, systems and procedures (including similar steps to those taken to mitigate operational risk as outlined above), together with internal and external legal advice, as appropriate. Should the Bank fail to identify and adequately control any legal or regulatory risk this could have a material adverse effect on its reputation, business, results of operations, financial condition or prospects.

**The Bank is subject to risks relating to its information technology systems and loss of business continuity**

The Bank depends on its information technology (IT) systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of its business and operating data. The proper functioning of the Bank's financial control, risk management, credit analysis and reporting, accounting, customer service and other IT systems, as well as the communication networks between its branches and main data processing centres, are critical to the Bank's business and ability to compete effectively. The Bank's business activities would be materially

disrupted if there is a partial or complete failure of any of its IT systems or communications networks. Such failures can be caused by a variety of factors, including natural disasters, extended power outages, computer viruses and other malicious acts. The proper functioning of the Bank's IT systems also depends on accurate and reliable data and other system input, which are subject to human error. Any failure or delay in recording or processing the Bank's transaction data could subject it to claims for losses and regulatory fines and penalties. The Bank has implemented and tested detailed business continuity plans and processes as well as disaster recovery procedures, but there can be no assurance that these safeguards will be fully effective.

**The Bank's risk management policies, systems and procedures may not prove effective in all circumstances**

In the course of its business activities, the Bank is exposed to a wide variety of banking risks. While the Bank believes that it has implemented appropriate policies, systems and procedures to control and mitigate these risks, its risk management techniques may not be fully effective in mitigating its exposure in all market environments or against all types of risk, including risks that are currently unidentified or not anticipated, particularly in view of its limited operating history.

The Bank's methods of managing risk include the use of historical market behaviour and setting appropriate risk appetite and maximum tolerance levels to determine and monitor risk exposures. In addition, stress testing using forward-looking scenarios is designed to assist the Bank in analysing the impact of possible future events on its capital, profitability, liquidity and funding position, which in turn helps to shape the Bank's strategy. The Bank's risk management methods are intended to assist it in predicting possible impacts on its risk exposures, but actual outcomes may prove to be significantly different from those which its risk management models predict and could be significantly greater than historical measures indicate.

Investors should note that any failure by the Bank to adequately control the risks to which it is exposed, including as a result of any failure to successfully implement new risk management systems in the future, could have a material adverse effect on the Bank's reputation, business, results of operations, financial condition or prospects.

**The Bank could be adversely affected by a negative change in its credit rating**

The Bank's credit rating is important to its business. The Bank has been assigned a long-term rating of "A-" with a "stable outlook" by Fitch.

Declines in those aspects of the Bank's business identified by the rating agencies as significant or otherwise could adversely affect the rating agency's perception of the Bank's credit and cause it to take negative ratings actions. Any downgrade in the Bank's credit ratings or the threat of a potential downgrade could:

- adversely affect its liquidity and competitive position;
- undermine confidence in the Bank;
- increase its funding costs;
- limit its access to the sukuk funding market; and/or
- limit the range of counterparties willing to enter into transactions with the Bank, as many institutions require their counterparties to satisfy minimum ratings requirements.

The Bank's credit ratings are subject to change and could be downgraded as a result of many factors, including the failure of the Bank to successfully implement its strategies. A downgrade of the Bank's credit ratings could also lead to a loss of customers and counterparties which could have a material adverse effect on its business, results of operations and financial condition.

**There is limited availability of *Shari'a*-compliant hedging instruments compared to those available to conventional banks**

The Bank's status as an Islamic bank means that its assets and liabilities are not fully comparable to those of a conventional bank. In particular, the Bank does not have a range of hedging products available to it to manage certain credit, market and liquidity risks that is comparable to those available to conventional banks. There can be no assurance that the limited availability of hedging products will be sufficient to manage all risks that the Bank faces, and any failure to manage specific risks effectively may have a material adverse effect on the Bank's business, results of operations, financial condition or prospects.

**The Bank cannot be certain that it will continue to grow or that it will be able to manage its growth effectively**

The Bank's growth strategy is predicated on organic growth opportunities (including those resulting from increased consumer demand for Islamic banking services and *Shari'a*-compliant banking products), supplemented by strategic sectoral and/or geographic acquisitions, if management identifies appropriate opportunities. The Bank cannot give any assurance that its recent rates of growth will be maintained in the future or that it will be successful in expanding into any other jurisdictions or business areas in which it may identify growth opportunities. Management of growth requires, among other things, stringent control of financial systems and operations, including increased risk management and internal control policies and procedures as well as credit analysis and reporting, the continued development of such controls, policies and procedures, the hiring and training of new personnel and continued access to funds to finance the relevant growth. It also significantly increases costs, including the cost of recruiting, training and retaining a sufficient number of suitably qualified personnel and the cost of compliance arising from exposure to additional activities and jurisdictions. Any failure on the Bank's part to manage its future growth efficiently and effectively or to successfully implement any expansion opportunities management may identify could have a material adverse effect on the Bank's business, results of operations, financial condition or prospects.

**The Bank faces competition in all of its business areas**

The Bank faces competition in all of its business areas from domestic and foreign banks operating in the UAE. The Bank faces competition from both Islamic banks and conventional banks. According to the UAE Central Bank, there were 49 banks (23 domestic and 26 foreign) licensed to operate inside the UAE (excluding the Dubai International Financial Centre) as at 31 December 2014. As at the same date, there were seven Islamic banks and a number of other financial institutions offering Islamic products and services in the UAE. Additional financial institutions may consider offering *Shari'a*-compliant products in the future. A number of the other banks operating in the UAE have significantly larger operations than the Bank, which may make it difficult for the Bank to compete with those banks on certain financing opportunities.

The banking market in the UAE has generally been a relatively protected market with high regulatory and other barriers to entry for foreign financial institutions. However, should some of these barriers be removed or eased in the future, either voluntarily or as a result of the UAE's obligations to the World Trade Organisation, the GCC or any other similar entities, it is likely to lead to a more competitive environment for the Bank and other domestic financial institutions. Recent changes that have affected the UAE banking system include:

- the introduction of the Al Etihad Credit Bureau by the UAE government in February 2012 and the increasing use by banks in the UAE of Emirates Credit Information Company may result in a reduction in financing and therefore an increase in competition for new customers as the UAE currently has a high debt burden;
- the introduction of direct debit by the UAE Central Bank, which commenced in October 2013 and is expected to be expanded in scope over time, may result in a significant reduction in payroll services for banks which is likely to negatively impact their fee income and, potentially, result in increased customer churn as payroll services are a significant factor limiting churn; and
- new services being offered by Emirates Identity Agency may reduce administration costs within banks and therefore facilitate account switching which is also likely to stimulate competition for new customers.

Increased competition could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects, particularly if it is less successful in adapting to new developments than certain of its competitors.

**The Bank may be negatively affected by future regulatory changes**

The Bank is subject to the laws, regulations, administrative actions and policies of the UAE which are applicable to banks generally and those of any other jurisdiction in which it may operate in the future. These regulations may limit the Bank's activities and changes in supervision and regulation could materially adversely affect the Bank's business, the products or services it is able to offer and the value of its assets, as well as its results of operations, financial condition and prospects. In particular, the Bank has implemented the Basel II standardised approach-related guidelines issued by the UAE Central Bank and intends to adopt the Basel III guidelines as and when the UAE Central Bank communicates its requirements in this regard. Future changes in regulatory, fiscal or other policies affecting the Bank's business, the products or services it is able to offer and the value of its

assets cannot always be predicted and are beyond the control of the Bank. A description of the legal and regulatory environment applicable to banks generally in the UAE is set out under “*The UAE banking sector and regulations*”.

#### **The Bank is dependent on key personnel**

The Bank’s revenue depends, in part, on its ability to continue to attract, retain and motivate qualified and skilled personnel. The Bank relies on its senior management for the implementation of its strategy and its day-to-day operations. There is intense competition in the UAE for skilled personnel, especially at the senior management level, due to a disproportionately low number of available qualified and/or experienced individuals compared to current demand. If the Bank is unable to retain key members of its senior management and/or hire new qualified personnel in a timely manner, this could have a material adverse effect on its operations.

The loss of one or more members of the Bank’s senior management team may result in:

- a loss of organisational focus;
- poor execution of operations; and/or
- an inability to identify and execute potential strategic initiatives.

These adverse results could, among other things, reduce potential revenue, which could materially adversely affect the Bank’s business, results of operations, financial condition and prospects.

#### **The interests of the Bank’s majority shareholder may conflict with those of the Certificateholders**

The Government of Dubai, members of the Ruling Family of Dubai and a select group of Government of Dubai nominated UAE Nationals directly own an aggregate of 87.8 per cent. of the shareholding of the Bank, see “*Description of the Bank—Shareholders and share ownership*”. By virtue of their shareholding, these investors, to the extent that they act together, have the ability to influence the Bank’s business significantly through their ability to control actions that require shareholder approval and also have the ability to approve the election of all members of the Bank’s board of directors (the **Board**) and thus influence Board decisions.

The interests of these investors may be different from those of Certificateholders. For example, decisions made by these investors and the Board may be influenced by the need to consider the wider interests of the group of companies of which the Bank forms part and may result in decisions (including decisions to pay significant dividends to shareholders) that are less commercially beneficial to Certificateholders than those that might otherwise have been made.

#### **The Bank has a short operating history**

The Bank commenced operations in January 2008. Accordingly, the Bank’s business and prospects must be considered in light of the risks, uncertainties, expenses and difficulties encountered by a business with a short operating history. There can be no assurance that the Bank will be successful in implementing its strategy and a failure to do so could have an adverse effect on its business, results of operations, financial condition and prospects.

In addition, given its short history the Bank is reliant on the experience and expertise of (i) its Board in formulating the Bank’s strategy and overseeing the development of the Bank and (ii) its *Shari’a* Board in ensuring that it conducts all of its operations in accordance with *Shari’a* principles. Accordingly the loss of any one or more members of either Board could have a negative impact on the Bank.

#### **The Certificates are not guaranteed by the Bank or any third party**

Investors should be aware that no guarantee is given in relation to the Certificates or any of the Transaction Documents by the Bank, its shareholders or any other person.

### **RISKS RELATED TO THE CERTIFICATES**

#### **The Certificates are limited recourse obligations of the Trustee**

The Certificates are not debt obligations of the Trustee, instead, each Certificate represents an undivided ownership interest in the Trust Assets relating to that Series. Recourse to the Trustee is limited to the Trust Assets of the relevant Series and the proceeds of the Trust Assets of the relevant Series are the sole source of payments on the Certificates of that Series. Upon the occurrence of a Dissolution Event, the sole rights of the Trustee and/or the Delegate (acting on behalf of the

Certificateholders of the relevant Series of Certificates) will be against the Bank to: (i) pay the Exercise Price in accordance with the Purchase Undertaking in respect of such Series; and (ii) otherwise perform its obligations under the Transaction Documents to which it is a party.

Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets), the Delegate or (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is party) the Bank in respect of any shortfall in the expected amounts due on the Certificates. The Bank is obliged to make certain payments under the Transaction Documents directly to the Trustee, and the Trustee and/or the Delegate will have direct recourse against the Bank to recover such payments due to the Trustee pursuant to the Transaction Documents.

After enforcing or realising the rights in respect of the Trust Assets in respect of a Series of Certificates and distributing the net proceeds of such Trust Assets in accordance with Condition 5(b) and the Master Trust Deed, the obligations of the Trustee and/or the Delegate in respect of that Series of Certificates shall be satisfied and neither the Trustee nor the Delegate nor any Certificateholder may take any further steps against the Trustee or the Bank to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets other than as contemplated in the Transaction Documents. The sole right of the Trustee, the Delegate and the Certificateholders against the Bank shall be to enforce the obligation of the Bank to perform its obligations under the Transaction Documents.

#### **The Certificates may be subject to early redemption**

If the amount payable in respect of the Certificates of any Series is required to be increased to include additional amounts and/or the Bank is required to pay additional amounts pursuant to the Transaction Documents, in each case as a result of certain changes affecting taxation in the Cayman Islands, the United Arab Emirates or the Emirate of Dubai (as the case may be), or in each case any political subdivision or any authority thereof or therein having power to tax, the Bank may be entitled to require the Trustee to redeem all but not some only of the Certificates upon giving notice in accordance with Condition 8(b). In addition, if so provided in the applicable Final Terms, a Series may also be redeemed early at the option of the Bank pursuant to Condition 8(c). Any such early redemption feature of any Certificate is likely to limit its market value.

During any period when the Bank may elect to require the Trustee to redeem the Certificates (whether pursuant to Condition 8(b) or Condition 8(c)), the market value of those Certificates generally will not rise substantially above the Dissolution Distribution Amount payable. This may also be true prior to any other Dissolution Date.

#### **Investors must make their own determination as to Shari'a compliance**

The Fatwa and Shari'a Supervisory Board of the Bank and the Shariah Supervisory Committee of Standard Chartered Bank have confirmed that the Transaction Documents are, in its view, in compliance with *Shari'a* principles. However, there can be no assurance that the Transaction Documents or any issue and trading of Certificates will be deemed to be *Shari'a* compliant by any other *Shari'a* board or *Shari'a* scholars. None of the Trustee, the Bank, the Delegate, the Agents (as defined in the Conditions), the Arrangers or the Dealers makes any representation as to the *Shari'a* compliance of any Series and potential investors are reminded that, as with any *Shari'a* views, differences in opinion are possible. Potential investors should obtain their own independent *Shari'a* advice as to whether the Transaction Documents and any issue of Certificates will meet their individual standards of compliance and should also make their own determination as to the future tradeability of the Certificates on any secondary market. Questions as to the *Shari'a* permissibility of the Transaction Documents or the issue and the trading of the Certificates may limit the liquidity and adversely affect the market value of the Certificates.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties under the Transaction Documents would be, if in dispute, either the subject of arbitration under English law or court proceedings under the laws of Dubai, the UAE or England and Wales. In such circumstances, the arbitrator or judge (as applicable) will first apply the governing law of the relevant Transaction Document rather than *Shari'a* principles in determining the obligations of the parties.

**There can be no assurance as to the impact of a change in the laws governing the Certificates or the Transaction Documents**

The structure of each issue of Certificates under the Programme is based on English law, the laws of the Emirate of Dubai and, to the extent applicable in Dubai, the federal laws of the UAE and administrative practices in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English, UAE or Dubai law or administrative practices in any such jurisdiction after the date of this Base Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Bank to make payments under the Transaction Documents to which it is a party and/or the Trustee to make payments under any Series of Certificates or the ability of the Trustee or the Bank to otherwise comply with their respective obligations under the Transaction Documents to which they are a party.

**Certificates are subject to modification by a majority of the Certificateholders of a Series without the consent of all of the Certificateholders**

The Master Trust Deed contains provisions for calling meetings of the Certificateholders of one or more Series to consider matters affecting their interests. In addition, the Master Trust Deed contains provisions for obtaining written resolutions on matters relating to the Certificates from holders without calling a meeting. A written resolution signed by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates of the relevant Series for the time being outstanding shall, for all purposes, take effect as an Extraordinary Resolution.

In certain circumstances, where the Certificates are held in global form in the clearing systems, the Trustee, the Bank and the Delegate (as the case may be) will be entitled to rely upon:

- (i) where the terms of the proposed resolution have been notified through the relevant clearing system(s), approval of a resolution proposed by the Trustee, the Bank and the Delegate (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing systems in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates of the relevant Series for the time being outstanding; and
- (ii) where electronic consent is not being sought, consent or instructions given in writing directly to the Trustee, the Bank and the Delegate (as the case may be) by accountholders in the clearing systems with entitlements to such global certificate or, where the accountholders hold such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held (directly or via one or more intermediaries), provided that the Trustee, the Bank and the Delegate (as the case may be) have obtained commercially reasonable evidence to ascertain the validity of such holding and taken reasonable steps to ensure such holding does not alter following the giving of such consent/instruction and prior to effecting such resolution.

A written resolution or an electronic consent as described above may be effected in connection with any matter affecting the interests of Certificateholders, including the modification of the Conditions, that would otherwise be required to be passed at a meeting of Certificateholders satisfying the special quorum in accordance with the provisions of the Master Trust Deed, and shall for all purposes take effect as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held.

These provisions permit defined majorities to bind all of the Certificateholders of the relevant Series (including Certificateholders who did not attend or vote at the relevant meeting as well as Certificateholders who voted in a manner contrary to the majority).

The Master Trust Deed also provides that the Delegate may, without the consent or sanction of Certificateholders, (i) agree to any modification of any of the provisions of the Master Trust Deed, the Transaction Documents or the Trustee's memorandum and articles of association that is of a formal, minor or technical nature or is made to correct a manifest error, or (ii) (a) agree to any other modification of any provisions of the Trust Deed, the Transaction Documents or the Trustee's memorandum and articles of association, or to any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Master Trust Deed or the Transaction Documents or (b) determine that any Dissolution Event or Potential Dissolution Event shall not be treated as such provided that such modification, waiver, authorisation or determination is in the opinion of the Delegate not materially prejudicial to the interests of the Certificateholders and not in contravention of any express direction by Extraordinary Resolution or request in writing by the holders of at least

20 per cent. of the outstanding aggregate face amount of the relevant Series and, in the case of modifications referred to in paragraph (ii) (a) above, other than in respect of a matter which requires a special quorum resolution (as defined in the Master Trust Deed). Any such modification, authorisation, determination or waiver shall be binding on the Certificateholders and, unless the Delegate agrees otherwise, such modification shall be notified by the Trustee to the Certificateholder as soon as practicable thereafter.

**Credit ratings assigned to the Bank and/or the Certificates are subject to ongoing evaluations and there can be no assurance that the ratings currently assigned to the Bank and/or the Certificates will not be downgraded**

The Bank has been assigned long term ratings of “A-” with a “stable outlook” by Fitch. The Certificates of each Series may be unrated or may be rated by one or more independent credit rating agencies who may also assign credit ratings to the Certificates. Any ratings of either the Bank or the Certificates may not reflect the potential impact of all the risks related to the structure, market, additional factors discussed herein and other factors that may affect the value of the Certificates. Nevertheless, real or anticipated changes in the Bank’s credit ratings or the ratings of the Certificates generally may affect the market value of the Certificates. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (ESMA) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

**Interest or profit rate risks**

Investment in Fixed Rate Certificates involves the risk that if market interest or profit rates subsequently increase above the rate paid on the Fixed Rate Certificates, this will adversely affect the value of the Fixed Rate Certificates.

Certificates with variable profit rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

**The Certificates may be subject to exchange rate risks and exchange controls**

Neither the Trustee nor the Bank has any control over factors that generally affect exchange rate risks, such as economic, financial and political events and the supply and demand for applicable currencies. In recent years, exchange rates between certain currencies have been volatile and volatility between such currencies or with other currencies may be expected in future.

The Trustee will pay all amounts due on any Certificates, and the Bank will make any payments pursuant to the Transaction Documents, in the Specified Currency. If an investor’s financial activities are denominated principally in a currency or currency unit (the **Investor’s Currency**) other than the Specified Currency, such investor may therefore bear certain exchange rate risks. These include the risk that: (i) exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor’s Currency); and (ii) authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls which could adversely affect an applicable exchange rate. Any appreciation in the value of the Investor’s Currency relative to the Specified Currency would decrease: (a) the Investor’s Currency-equivalent yield on the Certificates; (b) the Investor’s Currency-equivalent value of the Dissolution Distribution Amount payable in respect of the Certificates; and (c) the Investor’s Currency-equivalent market value of the Certificates.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate as well as the availability of a specified foreign currency at the time of any payment of any amounts on a Certificate. As a result, investors may receive less than expected, or no payment at all. Even if there are no actual exchange controls, it is possible that the Specified Currency for any particular Certificate would not be available at such Certificate's maturity.

#### **A secondary market may not develop or be maintained for the Certificates**

There is no assurance that a market for the Certificates of any Series will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of such Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates easily or at prices that will provide a desired yield. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates. An investor in Certificates must be prepared to hold the relevant Certificates for an indefinite period of time or until their maturity. Whilst an application has been made for the listing of certain Series to be issued under the Programme on the DFSA Official List, there can be no assurance that any such listing will occur or will enhance the liquidity of the Certificates of the relevant Series.

#### **Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade**

In relation to any issue of Certificates which have a denomination consisting of the minimum Specified Denomination (as defined in the Conditions) plus a higher integral multiple of another smaller amount, it is possible that the Certificates may be traded in amounts in excess of such minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a Certificateholder who, as a result of trading such amounts, holds a face amount which is less than the minimum Specified Denomination in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a face amount of Certificates at or in excess of the minimum Specified Denomination such that its holding amounts to one or more Specified Denomination. Certificateholders should be aware that Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

A Certificateholder who holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Certificate in respect of such holding (should definitive Certificates be printed) and would need to purchase a face amount of Certificates such that its holding amounts to at least a Specified Denomination in order to be eligible to receive a definitive Certificate. If definitive Certificates are issued, holders should be aware that definitive Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may also be illiquid and difficult to trade.

#### **Investors in the Certificates must rely on Euroclear and Clearstream, Luxembourg procedures**

Each Series of Certificates issued under the Programme will be represented on issue by a Global Certificate that may be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg. Except in the limited circumstances described in each Global Certificate, investors will not be entitled to receive Certificates in definitive form. Each of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Certificate held through it. While the Certificates of each Series are represented by a Global Certificate, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants and the Trustee will discharge its payment obligations under the relevant Series of Certificates by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants in relation to payments under the relevant Series of Certificates. The Trustee has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Certificate. Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the Certificates so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

## **European Monetary Union may cause Certificates denominated in certain currencies to be re-denominated in euro**

If any Series of Certificates are issued under the Programme which are denominated in the currency of a country which, at the time of issue, has not adopted the euro as its sole currency and, before the relevant Certificates are redeemed, the euro becomes the sole currency of that country, a number of consequences may follow, including, but not limited to: (i) all amounts payable in respect of the relevant Certificates may become payable in euro; (ii) applicable law may allow or require such Certificates to be re-denominated into euro and additional measures to be taken in respect of such Certificates; and (iii) there may no longer be available published or displayed rates for deposits in such currency used to determine the Profit Rate (as defined in the Conditions) on such Certificates. Any of these or any other consequences could adversely affect the holders of the relevant Certificates.

## **RISKS RELATING TO THE WAKALA ASSETS**

### **Ownership of Wakala Assets**

In order to comply with the requirements of *Shari'a*, an interest in the Wakala Assets of each Series will pass to the Trustee under the relevant Supplemental Purchase Contract. The Trustee will declare a trust in respect of its interest in such Wakala Assets and the other relevant Trust Assets in favour of the Certificateholders of the relevant Series pursuant to the relevant Supplemental Trust Deed. Accordingly, Certificateholders will have beneficial interests in the relevant Wakala Assets unless transfer of such interests in the Wakala Assets is prohibited by, or ineffective under, any applicable law (see “—*Transfer of the Wakala Assets*” below).

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Wakala Assets. The Wakala Assets will be selected by the Bank in its absolute discretion (subject to the provisions contained in the Transaction Documents) and the Certificateholders, the Trustee and the Delegate will have no ability to influence such selection. Only limited representations will be obtained from the Bank in respect of the Wakala Assets of a Series. In particular, the precise terms of such Wakala Assets or the nature of the assets leased, sold, originated or otherwise held will not be known (including whether there are any restrictions on transfer or any further obligations required to be performed by the Bank to give effect to the transfer of the ownership interest in the Wakala Assets). No steps will be taken to perfect the transfer of the ownership interest in any Wakala Assets or otherwise to give notice to any lessee or obligor in respect thereof. Obligors and lessees may have rights of set off or counterclaim against the Bank in respect of such Wakala Assets.

If and to the extent that a third party is able to establish a direct claim against the Trustee, the Delegate or any relevant Certificateholders in relation to any Wakala Assets, the Bank has agreed in the Master Trust Deed to indemnify the Trustee, the Delegate and the Certificateholders against any liabilities in connection with such claim. If the Bank is unable to satisfy any such claims or meet its indemnity obligations then the relevant Certificateholders may suffer losses in excess of the original face amount invested.

### **Transfer of the Wakala Assets**

No investigation has been or will be made as to whether any interest in any Wakala Assets may be transferred as a matter of the law governing the contracts, the law of the jurisdiction where such assets are located or any other relevant law. No investigation will be made to determine if any Supplemental Purchase Contract will have the effect of transferring an interest in the relevant Wakala Assets.

However, the Bank has covenanted in the Purchase Undertaking and the Master Trust Deed that to the extent that any transfer of any of the Wakala Assets is not effective in any jurisdiction for any reason, it will make restitution in respect of those Wakala Assets, will fully accept title to the Wakala Assets on the basis of the title interest which the Trustee may have in the same and, if that interest is disputed or challenged, will fully indemnify the Trustee for the purpose of redemption in full or in part, as the case may be, of the Certificates and, accordingly, the amount payable under such indemnity will equal the relevant Exercise Price.

The Bank has agreed under the terms of the Transaction Documents (other than the Master Purchase Agreement and the Master Lease Agreement) to submit to the jurisdiction of, at the option of the Delegate, the courts of England or the courts of the Dubai International Financial Centre (the **DIFC Courts**) in respect of any dispute, claim, difference or controversy arising out of or in connection with the Master Trust Deed, subject to the right of the Trustee (or the Delegate on behalf of the

Certificateholders) to elect to bring proceedings in any other court or courts of competent jurisdiction. Dubai Law No. 16 of 2011 on Amending Some Provisions of Law No. 12 of 2004 Concerning the Dubai International Financial Centre Courts (**Law No. 16 of 2011**) came into force in the Emirate of Dubai on 31 October 2011 and extended the jurisdiction of the DIFC Courts to include all civil and commercial disputes where the parties to the relevant dispute have expressly agreed to submit to the jurisdiction of the DIFC Courts, even where such parties are unconnected to the DIFC. None of the Trustee, the Bank or the Delegate are connected to the DIFC.

If the Bank fails to purchase the Wakala Assets in accordance with the Purchase Undertaking, the Delegate (on behalf of the Certificateholders) may, subject to the matters set out in Condition 12 and the terms of the Master Trust Deed, seek to enforce, *inter alia*, the provisions of the Purchase Undertaking and the Master Trust Deed against the Bank by commencing proceedings in the DIFC Courts. The DIFC Courts should respect the choice of English law as the governing law of the Purchase Undertaking and the Master Trust Deed.

Under Article 7 of Law No. 16 of 2011, any final and unappealable judgment, order or award made by the DIFC Courts in favour of the Delegate (on behalf of the Certificateholders) must, upon application by the Delegate to the Dubai Court of Execution, be enforced against the Bank by the Dubai Court of Execution without that court being able to reconsider the merits of the case.

Investors should note however that, as at the date of this Base Prospectus, Law No. 16 of 2011 remains relatively untested and there is therefore no certainty as to how the DIFC Courts intend to exercise their jurisdiction under the new law should any party dispute the right of the DIFC Courts to hear a particular dispute where any party is unconnected to the DIFC.

## **RISKS RELATING TO ENFORCEMENT**

### **The Bank may have insufficient assets located outside the UAE to satisfy any court judgment obtained outside the UAE**

Investors should note that the Bank is a UAE company and is incorporated, and the significant majority of its operations and assets are located, in the UAE. Accordingly, the Bank is unlikely to have sufficient assets located outside the UAE to satisfy in whole or part any judgment obtained from any court, including an English court, outside the UAE relating to amounts owing in connection with any Certificates. In addition, if investors were to seek enforcement of an English judgment in the UAE or to bring proceedings in relation to any Certificates in the UAE, then certain limitations would apply, see “*Investors may experience difficulty in enforcing arbitration awards and foreign judgments in Dubai*” below.

### **Compliance with UAE bankruptcy law may affect the Bank’s ability to perform its obligations under the Transaction Documents**

In the event of the Bank’s insolvency, UAE bankruptcy laws may adversely affect the Bank’s ability to perform its obligations under the Transaction Documents and, in turn, may adversely affect the Trustee’s ability to perform its obligations in respect of any Certificates issued under the Programme. There is little precedent to predict how claims by or on behalf of Certificateholders, the Trustee and/or the Delegate would be resolved, and therefore there can be no assurance that Certificateholders will receive payment of their claims in full or at all in these circumstances.

### **Change of law**

The structure of the issue of the Certificates is based on English law, the laws of the Emirate of Dubai and, to the extent applicable in Dubai, the federal laws of the UAE, the laws of the DIFC and administrative practices in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law, the laws of Dubai and, to the extent applicable in Dubai, the federal laws of the UAE, the laws of the DIFC or administrative practices in any such jurisdiction after the date of this Base Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Trustee to make payments under the Certificates or of the Bank to make payments under the Transaction Documents or the ability of the Trustee or the Bank to otherwise comply with their respective obligations under the Transaction Documents.

### **Investors may experience difficulties in enforcing arbitration awards and foreign judgments in Dubai**

Ultimately the payments under the Certificates are dependent upon the Bank making payments to the Trustee in the manner contemplated under the Transaction Documents. If the Bank fails to do so, it may be necessary for an investor to bring an action against the Bank to enforce its obligations (subject to the provisions of Condition 12) and/or to claim damages, as appropriate, which could be both time consuming and costly.

Furthermore, to the extent that the enforcement of remedies must be pursued in the UAE, it should be borne in mind that there is limited scope for self-help remedies under UAE law and that generally enforcement of remedies in the UAE must be pursued through the courts.

The parties to the Transaction Documents have agreed to refer any unresolved dispute in relation to the Transaction Documents to arbitration under the LCIA Rules with an arbitral tribunal with its seat in London. In addition, subject to the exercise of an option to litigate given to certain parties, the courts of England and Wales or the courts of the Dubai International Financial Centre, at the option of the Delegate, are stated to have jurisdiction to settle any disputes in respect of the Transaction Documents (other than the Master Purchase Agreement and the Master Lease Agreement). Notwithstanding that an arbitral award may be obtained from an arbitral tribunal in London or that a judgment may be obtained in an English court, there is no assurance that the Bank has, or would at the relevant time have, assets in the United Kingdom against which such arbitral award or judgment could be enforced, and it is therefore likely that proceedings would need to be commenced for the enforcement of any such award or judgment in Dubai (where the substantial majority of the Bank's assets are located).

Under current Dubai law, the Dubai courts are unlikely to enforce an English judgment without re-examining the merits of the claim and may not observe the parties' choice of English law as the governing law of the relevant Transaction Document or the Certificates. In the UAE, foreign law is required to be established as a question of fact and the interpretation of English law by a court in the UAE may not accord with the perception of an English court. In principle, courts in the UAE recognise the choice of foreign law if they are satisfied that an appropriate connection exists between the relevant transaction agreement and the foreign law which has been chosen. They will not, however, honour any provision of foreign law which is contrary to public policy, order or morals in the UAE, or to any mandatory law of, or applicable in, the UAE.

The UAE is a civil law jurisdiction and judicial precedents in Dubai have no binding effect on subsequent decisions. In addition, court decisions in Dubai are generally not recorded. These factors create greater judicial uncertainty.

The New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the **New York Convention**) entered into force in the UAE on 19 November 2006. Any arbitration award rendered in London should therefore be enforceable in Dubai in accordance with the terms of the New York Convention. Under the New York Convention, the UAE has an obligation to recognise and enforce foreign arbitration awards, unless the party opposing enforcement can prove one of the grounds under Article V of the New York Convention to refuse enforcement, or the Dubai courts find that the subject matter of the dispute is not capable of settlement by arbitration or enforcement would be contrary to the public policy of the UAE.

In practice, however, whether the Dubai courts will enforce a foreign arbitration award in accordance with the terms of the New York Convention has yet to be tested. There have been limited instances where the UAE courts, most notably the Fujairah Court of First Instance and the Dubai Court of Cassation, have ratified or ordered the recognition and enforcement of foreign arbitration awards under the New York Convention.

The uncertainty regarding the interpretation and application of the New York Convention provisions by the courts is further reinforced by the lack of a system of binding judicial precedent in the UAE and because of the independent existence of different Emirates within the UAE, some with their own court systems, whose rulings may have no more than persuasive force within other Emirates. There is therefore no guarantee that the Dubai courts will take the same approach in similar proceedings in the future. In practice, therefore, how the New York Convention provisions would be interpreted and applied by the Dubai courts, and whether the Dubai courts will enforce a foreign arbitration award in accordance with the New York Convention, remains largely untested.

### **Considerations relating to the non-recognition of trusts under UAE law**

UAE law does not recognise the concept of trust or beneficial interests. Accordingly, if a UAE court were to consider the merits of a claim in respect of the Master Trust Deed and apply UAE law principles in doing so, there is no certainty that all of the terms of the Master Trust Deed (which is governed by English law) would be enforced by the UAE courts and the trust arrangements set out therein may be re-characterised as an agency arrangement by the UAE courts.

### **A court may not grant an order for specific enforcement**

If the Bank fails to perform its obligations under any Transaction Document, the potential remedies available to the Trustee and the Delegate include obtaining an order for specific enforcement of the Bank's obligations or a claim for damages.

There is no assurance that a court will provide an order for specific enforcement, which is a discretionary matter. The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors including an obligation on the Trustee and the Delegate to mitigate any loss arising as a result of such breach. No assurance is provided as to the level of damages which a court may award if the Bank fails to perform its obligations set out in the Transaction Documents.

### **The Bank's waiver of immunity may not be effective under UAE law**

The Bank has waived its rights in relation to sovereign immunity under the Transaction Documents to which it is a party. However, there can be no assurance as to whether such waivers of immunity from execution or attachment or other legal process by it under the Transaction Documents to which it is a party are valid and binding under the laws of Dubai and, to the extent applicable therein, the federal laws of the UAE.

## **RISKS RELATING TO TAXATION**

### **Withholding under the EU Savings Directive**

Under Council Directive 2003/48/EC on the taxation of savings income (the **EU Savings Directive**), each Member State is required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Austria is required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which operate a withholding system when they are implemented.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

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

## **U.S. Foreign Account Tax Compliance Act Withholding**

Whilst the Certificates are in global form and held within Euroclear Bank SA/NV or Clearstream Banking, *société anonyme* (together, the **ICSDs**), in all but the most remote circumstances, it is not expected that the new reporting regime and potential withholding tax imposed by sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) will affect the amount of any payment received by the ICSDs (see “*Taxation Foreign Account Tax Compliance Act*”). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA might affect them. The Trustee’s obligations under the Certificates are discharged once it has made payment to, or to the order of, the common depository for the ICSDs (or its nominee as registered holder of the Certificates) and the Trustee has therefore no responsibility for any amount thereafter transmitted through the ICSDs and custodians or intermediaries. Further, foreign financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the United States (an **IGA**) are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make.

## **RISKS RELATING TO THE UAE AND DUBAI**

### **Emerging markets such as the UAE and Dubai are subject to greater risks than more developed markets**

Emerging markets such as the UAE and Dubai are subject to greater risks than more developed markets, including in some cases greater levels of legal, economic and political risks. See, for example, “*Risks relating to the Bank and its ability to fulfil its obligations under the Transaction Documents—The majority of the Bank’s business operations and assets are located in the UAE, which exposes it to UAE and MENA region economic and political risks*” and “*Risks relating to the Bank and its ability to fulfil its obligations under the Transaction Documents—The UAE’s economy is highly dependent upon its oil revenue*” above.

Investors should also be aware that investments in emerging markets are subject to greater risks than those in more developed markets, including risks such as:

- political, social and economic instability;
- external acts of warfare and civil clashes;
- governments’ actions or interventions, including tariffs, protectionism, subsidies, expropriation of assets and cancellation of contractual rights;
- regulatory, taxation and other changes in law;
- difficulties and delays in obtaining new permits and consents for business operations or renewing existing ones; and
- potential lack of reliability as to title to real property, lack of infrastructure and inability to repatriate profits and/or dividends.

Any of the foregoing could have an adverse effect on the Bank’s business, financial condition and results of operations. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment in any Certificates is appropriate. Generally, investment in emerging markets (such as an investment in any Certificates) is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

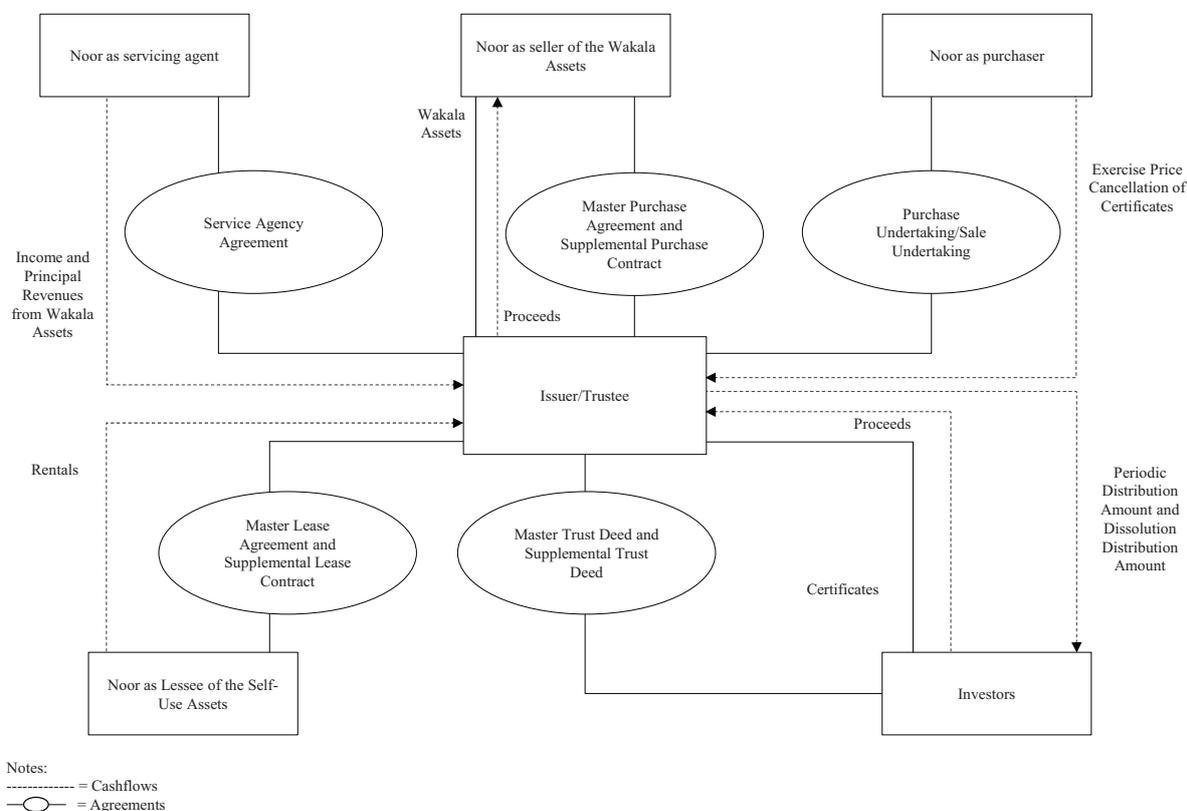
### **The GCC may enter into a monetary union**

There is the possibility that Bahrain, Kuwait, Saudi Arabia and Qatar may each abandon their respective national currencies in favour of a single GCC currency in the future. If a single GCC

currency is adopted, the necessary convergence of laws, policies and procedure will bring significant changes to the economic and political infrastructure in each of the GCC states. As yet there has been no announcement of an official timetable for the progression of monetary union and there are currently no details of new legislation or policies. Investors should, however, be aware that new legislation and any resulting shift in policy and procedure in the UAE could affect the ability of the Bank to perform its obligations in respect of the Transaction Documents.

## STRUCTURE DIAGRAM AND CASHFLOWS

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



### Principal cash flows

#### Payments by the Certificateholders and the Trustee

On the Issue Date of each Series, the Certificateholders will pay the issue price in respect of the Certificates (the **Issue Proceeds**) to the Trustee and the Trustee will pay the Issue Proceeds in full to or to the order of the Bank (as Seller) as the purchase price payable under the relevant Supplemental Purchase Contract for the purchase of an initial portfolio (the **Initial Wakala Portfolio**) consisting of:

- any plot of land or other real estate related asset which is either: (i) to be developed in accordance with a development plan; or (ii) already developed but not externally leased to third parties (each such asset, a **Self-use Asset**), each of which shall be leased (each a **Leased Asset**) by the Trustee to the Bank;
- real estate assets and non-real estate assets together with the related *ijara* contracts and receivables thereunder (the **Ijara Finance Assets**);
- other income generating assets (including, without limitation, any *sukuk* or trust certificates) that have underlying tangible assets and which are originated, held or owned by the Bank in accordance with *Shari'a* principles laid down by the Bank's Fatwa and Shari'a Supervisory Board (including any agreements or documents relating to such asset) (each such asset, an **Other Tangible Asset** and each Ijara Finance Asset, Other Tangible Asset and Leased Asset a **Tangible Asset**); and

(d) receivables under *murabaha* or other contracts involving the sale of commodities or goods on a deferred payment basis together with the payments of the related profit amounts and the contracts in respect thereof (the **Murabaha Receivables**) and other *Shari'a* compliant income generating assets that do not have associated with them underlying tangible assets (the **Other Intangible Assets**) (each Murabaha Receivable and Other Intangible Asset an **Intangible Asset**), and each Tangible Asset and Intangible Asset, a **Wakala Asset**.

#### ***Periodic Distribution Payments***

On the Business Day prior to each Periodic Distribution Date the Servicing Agent (as defined in the Service Agency Agreement) will pay amounts reflecting the returns (excluding any amounts in the nature of principal) generated in respect of the relevant Wakala Portfolio (the **Wakala Portfolio Income Revenues**) into the relevant Transaction Account, which amount is intended to be sufficient to fund the Periodic Distribution Amounts payable by the Trustee under the Certificates of the relevant Series (the **Required Amount**) and shall be applied by the Trustee for that purpose.

If the Wakala Portfolio Income Revenues are greater than the Required Amount, such excess returns shall be credited to a separate account by the Servicing Agent, (such account, in the case of a Wakala Portfolio being the **Wakala Income Reserve Collection Account**).

If, in respect of any period, the Wakala Portfolio Income Revenues are insufficient to fund the Required Amount, the Servicing Agent shall apply amounts standing to the credit of the Wakala Income Reserve Collection Account towards such shortfall by paying an amount equal to the same into the Transaction Account. If, having applied such amounts from the Wakala Income Reserve Collection Account there remains a shortfall between the amount standing to the credit of the Transaction Account and the Required Amount, the Servicing Agent may make *Shari'a* compliant funding available (or may procure its availability, as applicable) to the Trustee in the amount of the shortfall remaining on terms that such funding is repayable: (i) from Wakala Portfolio Income Revenues received in respect of a subsequent period; or (ii) on a Dissolution Date on which all (but not some only) of the Certificates of a Series are to be redeemed (a **Liquidity Facility**).

#### ***Payment of the Dissolution Distribution Amount on the Scheduled Dissolution Date***

In respect of the Scheduled Dissolution Date in relation to each Series the Trustee or the Delegate (as applicable) will have the right under the Purchase Undertaking to require the Bank to purchase all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the Wakala Assets comprising the Wakala Portfolio for payment of the relevant Exercise Price into the Transaction Account on the Business Day immediately preceding the Scheduled Dissolution Date and such amounts are intended to fund the Dissolution Distribution Amount payable by the Trustee under the Certificates.

#### ***Payment of the Dissolution Distribution Amount in the event of early redemption***

The Trust in relation to any Series may be dissolved prior to the relevant Scheduled Dissolution Date for the following reasons: (a) following a Dissolution Event; (b) for tax reasons; (c) if so specified in the applicable Final Terms, at the option of the Bank; and (d) if so specified in the applicable Final Terms, at the option of the Certificateholders.

In respect of an early redemption following a Dissolution Event or at the option of Certificateholders, on a Dissolution Date the Trustee or the Delegate (as applicable) will have the right under the Purchase Undertaking to require the Bank to purchase all of the Trustee's rights, title, interests, benefits and entitlements in, to and under all (in the case of redemption following a Dissolution Event or where all Certificates are to be redeemed on such Dissolution Date) or (where some only of the Certificates are to be redeemed on such Dissolution Date) a portion of the Wakala Assets comprising the Wakala Portfolio for payment of the relevant Exercise Price into the Transaction Account on the Dissolution Event Redemption Date (in the case of redemption following a Dissolution Event) or the Business Day immediately preceding the relevant Dissolution Date (in all other cases) and such amount is intended to fund the Dissolution Distribution Amount payable by the Trustee under the Certificates on the relevant Dissolution Date.

#### ***Early redemption for tax reasons or early redemption at the option of the Bank***

In respect of an early redemption for tax reasons or an early redemption at the option of the Bank the Bank will have the right under the Sale Undertaking to require the Trustee to sell all of its rights, title, interests, benefits and entitlements in, to and under all or (where some only of the Certificates

are to be redeemed on such Dissolution Date) a portion of the Wakala Assets comprising the Wakala Portfolio for payment of the relevant Exercise Price into the Transaction Account on the Business Day immediately preceding the relevant Dissolution Date and such amount is intended to fund the Dissolution Distribution Amount payable by the Trustee under the Certificates on the relevant Dissolution Date.

***Purchase and Cancellation of Certificates***

Pursuant to Condition 8(f) and 8(g), the Bank and its subsidiaries may at any time purchase Certificates in the open market or otherwise. If the Bank elects to cancel any Certificates so purchased the Bank may exercise its right under the Sale Undertaking to require the Trustee to transfer all of its rights, title, interests, benefits and entitlements in, to and under all or a specified portion (as applicable) of the Wakala Assets comprising the Wakala Portfolio to the Bank against surrender of the relevant Certificates and in each case on the relevant date specified by the Bank for cancellation.

## OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Series, the applicable Final Terms. The Trustee and any relevant Dealer(s) may agree that Certificates shall be issued in a form other than that contemplated in the Terms and Conditions of the Certificates, in which event, in the case of listed Certificates only and, if appropriate, a supplemental prospectus will be published.

Words and expressions defined in the Conditions, “Summary of Provisions relating to the Certificates while in Global Form” and “Summary of Principal Transaction Documents” shall have the same meanings in this overview.

**Seller, Obligor, Servicing Agent and Lessee:**

Noor Bank PJSC, incorporated in Dubai on 26 March 2007 as a public joint stock company under UAE Federal Law No. 8 of 1984 (as amended) in its capacity as Seller pursuant to the Master Purchase Agreement, Obligor pursuant to the Purchase Undertaking, Servicing Agent pursuant to the Service Agency Agreement and Lessee Pursuant to the Master Lease Agreement.

**Trustee:**

Noor Sukuk Company Ltd., as issuer of the Certificates and as trustee for and on behalf of the Certificateholders, an exempted company with limited liability incorporated on 2 March 2015 in accordance with the Companies Law (as amended) of the Cayman Islands with company registration number 297119 with its registered office at the offices of MaplesFS Limited, Queensgate House, P.O. Box 1093, Grand Cayman, KY1-1102, Cayman Islands. The Trustee has been incorporated solely for the purpose of participating in the transactions contemplated by the Transaction Documents (as defined below) to which it is a party.

**Ownership of the Trustee:**

The authorised share capital of the Trustee is U.S.\$50,000 consisting of 50,000 shares of U.S.\$1.00 each, of which 250 shares are fully paid up and issued. The Trustee’s entire issued share capital is held on trust by MaplesFS Limited under the terms of a trust for charitable purposes.

**Administration of the Trustee:**

The affairs of the Trustee are managed by MaplesFS Limited, a licensed trust company in the Cayman Islands (the **Trustee Administrator**), with registered office at Queensgate House, P.O. Box 1093 Grand Cayman, KY1-1102, Cayman Islands, who will provide, amongst other things, corporate administrative services, director services and act as share trustee for and on behalf of the Trustee pursuant to a corporate services agreement dated 13 April 2015 made between the Trustee and the Trustee Administrator (the **Management Agreement**).

**Arrangers:**

Noor Bank PJSC and Standard Chartered Bank.

**Dealers:**

Citigroup Global Markets Limited, Noor Bank PJSC, Standard Chartered Bank and any other Dealer appointed from time to time either generally in respect of the Programme or in relation to a particular Series of Certificates.

**Delegate:**

BNY Mellon Corporate Trustee Services Limited (the **Delegate**). In accordance with the Master Trust Deed, the Trustee will, *inter alia*, unconditionally and irrevocably appoint the Delegate to be its attorney and to exercise certain present and future duties, powers, rights, authorities and discretions vested in the Trustee by certain provisions of the Master Trust Deed in accordance with the terms of the Master Trust Deed. In particular, the Delegate shall be entitled to (and, in certain circumstances, shall, subject to being indemnified and/or secured and/or prefunded to its satisfaction, be obliged to) take enforcement action in the name of the Trustee against the Bank (in any capacity) following a Dissolution Event.

<b>Principal Paying Agent:</b>	The Bank of New York Mellon, London Branch.
<b>Registrar and Transfer Agent:</b>	The Bank of New York Mellon (Luxembourg) S.A.
<b>Initial Programme Size:</b>	Up to U.S.\$3,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The size of the Programme may be increased in accordance with the terms of the Programme Agreement.
<b>Method of Issue:</b>	The Certificates may be issued on a syndicated or non-syndicated basis. The Certificates will be issued in series (each series of Certificates being a <b>Series</b> ). The specific terms of each Series will be recorded in a final terms document (the <b>applicable Final Terms</b> ).
<b>Currencies:</b>	Subject to any applicable legal or regulatory restrictions, Certificates may be denominated in any currency (each a <b>Specified Currency</b> ) agreed between the Trustee, the Bank and the relevant Dealer.
<b>Maturities:</b>	The Certificates will have such maturities as may be agreed between the Trustee, the Bank and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Trustee, the Bank or the Specified Currency.
<b>Issue Price:</b>	Certificates may be issued at any price on a fully paid basis, as specified in the applicable Final Terms. The price and amount of Certificates to be issued under the Programme will be determined by the Trustee, the Bank and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.
<b>Denomination of Certificates:</b>	The Certificates will be issued in such denominations as may be agreed between the Trustee, the Bank and the relevant Dealer(s), as specified in the applicable Final Terms, save that (i) the minimum denomination of each Certificate will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Specified Currency, (ii) the minimum face amount of each Certificate listed on the DFSA Official List will be U.S.\$100,000 (or, if the Certificates are issued in a currency other than United States dollars, the equivalent amount in such currency, as calculated on the Issue Date of such Series); and (iii) unless otherwise permitted by such current laws and regulations, Certificates (including Certificates denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Trustee in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA will have a minimum denomination of £100,000 (or, if the Certificates are denominated in a currency other than sterling, the equivalent amount in such currency, as calculated on the Issue Date of such Series).
<b>Status of the Certificates:</b>	<p>The Certificates will represent an undivided beneficial ownership interest in the Trust Assets of the relevant Series and will be limited recourse obligations of the Trustee. Each Certificate will constitute unsecured obligations of the Trustee and shall at all times rank <i>pari passu</i> and without any preference or priority with all other Certificates of the relevant Series.</p> <p>The payment obligations of the Bank (in any capacity) to the Trustee under the Transaction Documents in respect of each Series of Certificates will be direct, unconditional, unsubordinated and (subject to the negative pledge provisions described in Condition 6(b)) unsecured obligations of the Bank and shall, save</p>

for such exceptions as may be provided by applicable legislation and subject to the negative pledge provisions described in Condition 6(b), at all times rank at least equally with all other unsecured and unsubordinated monetary obligations of the Bank, present and future.

**Trust Assets:**

The Trust Assets of the relevant Series will be (i) the cash proceeds of the issue of the relevant Series of Certificates, pending application thereof in accordance with the terms of the Transaction Documents; (ii) the Trustee's rights, title, interest, benefits and entitlements, present and future, in, to and under the Wakala Portfolio; (iii) the Trustee's rights, title, interest, benefits and entitlements, present and future, in, to and under the Transaction Documents (other than in relation to the Excluded Representations (as defined in the Conditions) and the covenant given to the Trustee pursuant to Clause 13.1 of the Master Trust Deed); and (iv) all moneys standing to the credit of the relevant Transaction Account from time to time; and all proceeds of the foregoing listed (i) to (iv) (the **Trust Assets**).

**Periodic Distribution Amounts:**

Certificateholders are entitled to receive Periodic Distribution Amounts calculated on the basis specified in the applicable Final Terms.

**Fixed Rate Certificates:**

Fixed Rate Certificates will bear profit on their outstanding face amount at such fixed rate per annum and on such date or dates as may be agreed between the Trustee, the Bank and the relevant Dealer(s), calculated in accordance with such Day Count Fraction as may be agreed between the Trustee, the Bank and the relevant Dealer(s), each as more particularly described in Condition 7(a).

**Floating Rate Certificates:**

Floating Rate Certificates will bear profit on their outstanding face amount at such floating rate per annum as may be determined:

- (i) on the same basis as the floating rate under a notional profit rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the relevant Series of Certificates) plus or minus the applicable margin; or
- (ii) on the basis of the relevant Reference Rate as adjusted for any applicable margin.

The margin (if any) relating to such floating rate will be agreed between the Trustee, the Bank and the relevant Dealer(s) for each Series of Floating Rate Certificates.

Such profit will be paid on such date or dates as may be agreed between the Trustee, the Bank and the relevant Dealer(s) and will be calculated on the basis of such Day Count Fraction as may be agreed between the Trustee, the Bank and the relevant Dealer(s).

Floating Rate Certificates may also have a maximum profit rate, a minimum profit rate or both.

See Condition 7(b).

**Negative Pledge:**

The Certificates will have the benefit of a negative pledge granted by the Bank, as described in Condition 6(b).

**Cross Acceleration:**

The Certificates will have the benefit of a cross-acceleration provision in respect of the Bank, as described in Condition 12 and sub- paragraph (iii) of the definition of "Obligor Event" corresponding thereto.

**Dissolution on the Scheduled  
Dissolution Date:**

Unless the Certificates are previously redeemed or purchased and cancelled, the Trustee will redeem each Certificate at the relevant Dissolution Distribution Amount on the relevant Scheduled Dissolution Date specified in the applicable Final Terms for such Series and the Trust in relation to the relevant Series will be dissolved by the Trustee following the payment of all such amounts in full.

**Dissolution Distribution Amount:**

In relation to each Certificate of a Series, either:

- (i) the sum of:
  - (a) the outstanding face amount of such Certificate; and
  - (b) any accrued but unpaid Periodic Distribution Amounts for such Certificate; or
- (ii) such other amount specified in the applicable Final Terms as being payable upon the relevant Dissolution Date.

**Early Dissolution of the Trust:**

The Trust may only be dissolved (in whole or in part) prior to the Scheduled Dissolution Date upon the:

- (i) occurrence of a Dissolution Event;
- (ii) exercise of an Optional Dissolution Right (if applicable to the relevant Series);
- (iii) exercise of a Certificateholder Put Right (if applicable to the relevant Series); or
- (iv) occurrence of a Tax Event.

In each case, the Certificates of a Series will be redeemed pursuant to the exercise of the Purchase Undertaking or the Sale Undertaking (as applicable) and the Service Agency Agreement whereupon the Bank will pay the relevant Exercise Price to the Trustee. The relevant Exercise Price payable under the Purchase Undertaking or the Sale Undertaking, as the case may be will be used to fund the redemption of the Certificates of the relevant Series at an amount equal to the relevant Dissolution Distribution Amount.

**Dissolution Events:**

The Dissolution Events are described in Condition 12. Following the occurrence and continuation of a Dissolution Event in respect of a Series of Certificates, the Certificates may be redeemed in full at an amount equal to the relevant Dissolution Distribution Amount in the manner described in Condition 12.

**Early Dissolution for Tax Reasons:**

Where the Trustee has or will become obliged to pay any additional amounts in respect of the Certificates pursuant to Condition 10 or the Bank has or will become obliged to pay any additional amounts in respect of amounts payable to the Trustee pursuant to the terms of any Transaction Document as a result of a change in, or amendment to, the laws or regulations of the Cayman Islands (in the case of a payment by the Trustee) or the United Arab Emirates or the Emirate of Dubai (in the case of a payment by the Bank) or in each case, any political subdivision or any authority therein or thereof having power to tax or any change in the application or official interpretation of such laws or regulations, and such obligation cannot be avoided by the Trustee or the Bank, as applicable, taking reasonable measures available to it, the Bank may in its sole discretion require the Trustee to redeem the Certificates in whole, but not in part, on a Periodic Distribution Date (in the case of a Floating Rate Certificate) or at any time (in the case of a Fixed Rate Certificate) at the relevant Dissolution Distribution Amount, as more particularly described in Condition 8(b).

<b>Optional Dissolution Right:</b>	<p>If so specified in the applicable Final Terms, the Bank may, in accordance with Condition 8(c), require the Trustee to redeem all or some of the Certificates of the relevant Series at the relevant Dissolution Distribution Amount on any Optional Dissolution Date.</p> <p>If applicable to the relevant Series, the Optional Dissolution Date(s) will be specified in the applicable Final Terms.</p>
<b>Certificateholder Put Right:</b>	<p>If so specified in the applicable Final Terms, Certificateholders may elect to redeem their Certificates on any Certificateholder Put Right Date(s) specified in the applicable Final Terms at an amount equal to the relevant Dissolution Distribution Amount in accordance with Condition 8(d).</p>
<b>Cancellation of Certificates held by the Bank and/or any of its subsidiaries:</b>	<p>Pursuant to Condition 8(f), the Bank and/or any of its subsidiaries may at any time purchase Certificates in the open market or otherwise. If the Bank wishes to cancel such Certificates purchased by it and/or any of its subsidiaries, the Bank may do so in accordance with Condition 8(g).</p>
<b>Wakala Asset Substitution</b>	<p>The Servicing Agent may substitute Wakala Assets in accordance with the relevant provisions of the Service Agency Agreement and the Sale Undertaking, provided that the value of any substitute assets shall have an aggregate value which is not less than the aggregate value of the Wakala Assets to be so substituted.</p>
<b>Limited Recourse:</b>	<p>Each Certificate of a particular Series will represent an undivided beneficial ownership interest in the Trust Assets for such Series. No payment of any amount whatsoever shall be made in respect of the Certificates except to the extent that funds for that purpose are available from the relevant Trust Assets.</p> <p>Certificateholders have no recourse to any assets of the Trustee (and/or its directors or officers in their capacity as such) (other than the relevant Trust Assets) or the Delegate or any Agent or any of their respective directors, officers, employees, shareholders or affiliates in respect of any shortfall in the expected amounts from the relevant Trust Assets to the extent the relevant Trust Assets have been exhausted, following which all obligations of the Trustee shall be extinguished.</p> <p>See further Condition 4(b).</p>
<b>Form and Delivery of the Certificates:</b>	<p>The Certificates will be issued in registered form only. The Certificates of each Series will be represented on issue by beneficial interests in a Global Certificate (the <b>Global Certificate</b>), which will be deposited with, and registered in the name of a nominee for, a common depository (the <b>Common Depository</b>) for Euroclear Bank SA/NV (<b>Euroclear</b>) and Clearstream Banking, société anonyme (<b>Clearstream, Luxembourg</b>). Individual Certificates evidencing holdings of Certificates will be issued in exchange for interests in the relevant Global Certificate only in certain limited circumstances described under “Summary of Provisions relating to the Certificates while in Global Form”.</p>
<b>Clearance and Settlement:</b>	<p>Holders of the Certificates must hold their interest in the relevant Global Certificate in book-entry form through Euroclear and/or Clearstream, Luxembourg. Transfers within and between each of Euroclear or Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearing system.</p>

**Withholding Tax:**

All payments by the Trustee in respect of the Certificates are to be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Cayman Islands or the United Arab Emirates or the Emirate of Dubai or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In such event, the Trustee has agreed to pay such additional amounts as shall result in receipt by the Certificateholders of such amounts as would have been received by it had no such withholding or deduction been required, subject to and in accordance with Condition 10. If the Trustee is required to pay any additional amounts as aforesaid, the Bank has undertaken in the Purchase Undertaking, to pay such additional amounts as may be necessary so that the full amount due and payable by the Trustee in respect of the Certificates is received by the Trustee for the purposes of payment to the Certificateholders in accordance with and subject to the provisions of Condition 10.

In addition, all payments by the Bank under the Transaction Documents to which it is a party are to be made without any deduction or withholding for, or on account of, any present or future taxes, levies, duties, fees, assessments or other charges of whatever nature unless required by law and without set-off or counterclaim of any kind. If any deduction or withholding is required by law, the Bank has undertaken to pay such additional amounts as shall result in receipt by the Trustee of such amounts as would have been received by it under the relevant Transaction Document had no such deduction or withholding been made.

**Listing:**

Application has been made to the DFSA for Certificates issued under this Programme during the period of 12 months after the date hereof to be admitted to the DFSA Official List and to NASDAQ Dubai for such Trust Certificates to be admitted to trading on NASDAQ Dubai.

Certificates may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Trustee, the Bank and the relevant Dealer in relation to the Series. Certificates which are neither listed nor admitted to trading on any market may also be issued.

The applicable Final Terms will state whether or not the relevant Certificates are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

**Certificateholder Meetings:**

A summary of the provisions for convening meetings of Certificateholders to consider matters relating to their interests as such is set out in Condition 14.

**Tax Considerations:**

See "*Taxation*" for a description of certain tax considerations applicable to the Certificates.

**Governing Law:**

The Certificates and any non-contractual obligations arising out of or in connection with them shall be governed by English law.

Each of the Master Trust Deed, each Supplemental Trust Deed, the Agency Agreement, the Programme Agreement, any Subscription Agreement, the Service Agency Agreement, the Sale Undertaking, the Purchase Undertaking and any non-contractual obligations arising out of or in connection with the same will be governed by and construed in accordance with English law.

The Master Lease Agreement and any Supplemental Lease Contract, the Master Purchase Agreement and any Supplemental Purchase Contract and any sale and/or transfer agreement (as applicable) entered into pursuant to the Purchase Undertaking or the Sale Undertaking, as the case may be, will be governed by, and construed in accordance with, the laws of the Emirate of Dubai and, to the extent applicable in Dubai, the federal laws of the United Arab Emirates.

The Management Agreement and the Share Declaration of Trust (as defined in “*Description of the Trustee – The Administrator*”) will be governed by the laws of the Cayman Islands.

**Waiver of Immunity:**

To the extent that the Bank may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and all other legal proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or its assets or revenues, the Bank will agree in the Transaction Documents not to claim and will irrevocably and unconditionally waive such immunity in relation to any legal proceedings.

Further, the Bank will irrevocably and unconditionally consent to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any legal proceedings. See Condition 19(h).

**Transaction Documents:**

The Transaction Documents in respect of a Series shall comprise the Master Trust Deed, each Supplemental Trust Deed, the Agency Agreement, the Certificates, the Service Agency Agreement, the Master Lease Agreement and any Supplemental Lease Contract, the Sale Undertaking, the Purchase Undertaking, any sale and/or transfer agreement (as applicable) entered into pursuant to the Purchase Undertaking or the Sale Undertaking, as the case may be, the Master Purchase Agreement and any Supplemental Purchase Contract.

**Rating:**

The Bank has been assigned long term ratings of “A-” with a “stable outlook” by Fitch. The United Arab Emirates has been assigned a credit rating of “Aa2” with a “stable” outlook by Moody’s Investors Service Singapore Pte. Ltd.

Moody’s Investors Service Singapore Pte. Ltd. is not established in the European Union and has not applied for registration under the CRA Regulation. The rating has been endorsed by Moody’s in accordance with the CRA Regulation. Each of Fitch and Moody’s is established in the European Union and is registered under the CRA Regulation. As such, each of Fitch and Moody’s is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

A Series of Certificates to be issued under the Programme may be rated or unrated. Where a Series of Certificates is to be rated, its rating will be specified in the applicable Final Terms and will not necessarily be the same as the rating assigned to the Programme.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

**Selling Restrictions:**

There are restrictions on the offer, sale and transfer of the Certificates, including in the United States of America, the Public Offer Selling Restriction under the Prospectus Directive, the United

Kingdom, the Cayman Islands, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, Bahrain, Saudi Arabia, Qatar, Japan, Hong Kong, Malaysia and Singapore. See “*Subscription and Sale*”.

**United States Selling Restrictions:** Regulation S, Category 2.

## TERMS AND CONDITIONS OF THE CERTIFICATES

*The following is the text of the terms and conditions that, subject to completion and amendment and as varied in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Certificates in definitive form (if any) issued in exchange for the Global Certificate representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such definitive Certificates. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Certificates. References in the Conditions to “**Certificates**” are to the Certificates of one Series only, not to all Certificates that may be issued under the Programme.*

Noor Sukuk Company Ltd. (in its capacity as issuer and in its capacity as trustee, the **Trustee**) has established a programme (the **Programme**) for the issuance of trust certificates (the **Certificates**) in a maximum aggregate face amount of U.S.\$3,000,000,000 (or the equivalent in other currencies calculated as described in the Programme agreement between the Trustee, Noor Bank PJSC (the **Obligor**) and the Dealers named therein dated 14 April 2015 (the **Programme Agreement**)), or such other maximum aggregate face amount as increased in accordance with the terms of the Dealer Agreement.

The Certificates are constituted by a master trust deed dated 14 April 2015 between the Trustee, the Obligor and BNY Mellon Corporate Trustee Services Limited as the Trustee’s delegate (the **Delegate**, which expression shall include all persons for the time being the delegate or delegates under the Trust Deed) (the **Master Trust Deed**) as supplemented by a supplemental declaration of trust entered into on or before the date of issue of the relevant Certificates (the **Issue Date**) in respect of the relevant Series (the **Supplemental Trust Deed** and, together with the Master Trust Deed, the **Trust Deed**).

An Agency Agreement (as amended or supplemented as at the Issue Date, the **Agency Agreement**) dated 14 April 2015 has been entered into in relation to the Certificates between the Trustee, the Obligor, The Bank of New York Mellon, London Branch as initial principal paying agent, The Bank of New York Mellon (Luxembourg) S.A. as initial registrar and transfer agent and the other agents named in it. The principal paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the **Principal Paying Agent**, the **Paying Agents** (which expression shall include the Principal Paying Agent), the **Registrar**, the **Transfer Agents** (which expression shall include the Registrar) and the **Calculation Agent(s)**, and together the **Agents**.

These terms and conditions (the **Conditions**) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of Certificates referred to below, the Agency Agreement and the remaining Transaction Documents (as defined below). The Certificateholders are bound by, and are deemed to have notice of, all the provisions applicable to them in the Transaction Documents.

Copies of the Transaction Documents are available for inspection during usual business hours at the principal office of the Delegate and at the specified office of the Principal Paying Agent.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Trustee, on behalf of the Certificateholders: (a) to apply the proceeds of the issue of the Series (the **Proceeds**) in full to purchase the Initial Wakala Portfolio (as defined herein) from the Obligor; (b) to act as Purchaser pursuant to the Master Purchase Agreement and any Supplemental Purchase Contract; (c) to act as Lessor pursuant to the Master Lease Agreement and any Supplemental Lease Contract; and (d) to enter into each Transaction Document to which it is a party, subject to the terms and conditions of the Trust Deed and these Conditions.

### 1 Interpretation

Unless defined herein or the context otherwise requires, capitalised words and expressions used but not defined herein or hereon shall have the meaning given to them in the Trust Deed and the Agency Agreement. In addition, for the purposes of these Conditions, the following expressions have the following meanings:

**Authorised Signatory** has the meaning given to it in the Trust Deed;

**Broken Amount** means the amount specified as such hereon;

**Business Day** has the meaning given to it in Condition 7(i);

**Calculation Amount** means the amount specified as such hereon;

**Cancellation Notice** means a cancellation notice given pursuant to the terms of the Sale Undertaking;

**Certificateholder** or **holder** has the meaning given to it in Condition 2;

**Certificateholder Put Exercise Notice** has the meaning given to it in Condition 8(d);

**Certificateholder Put Right** means the right specified in Condition 8(d);

**Certificateholder Put Right Date** means, in relation to any exercise of the Certificateholder Put Right, the date(s) specified as such hereon and which must (if this Certificate is a Floating Rate Certificate) be a Periodic Distribution Date;

**Day Count Fraction** has the meaning given to it in Condition 7(i);

**Delegation** has the meaning given to it in Condition 15(a);

**Dispute** has the meaning given to it in Condition 19(b);

**Dissolution Date** means, as the case may be:

- (a) the Scheduled Dissolution Date;
- (b) any Early Tax Dissolution Date;
- (c) any Optional Dissolution Date;
- (d) any Certificateholder Put Right Date;
- (e) any Dissolution Event Redemption Date; or
- (f) such other date as specified hereon for the redemption of Certificates and dissolution of the Trust in whole or in part prior to the Scheduled Dissolution Date;

**Dissolution Distribution Amount** means:

- (a) the sum of:
  - (i) the outstanding face amount of such Certificate; and
  - (ii) any accrued but unpaid Periodic Distribution Amounts for such Certificate; or
- (b) such other amount specified hereon as being payable upon any Dissolution Date;

**Dissolution Event** means a Trustee Event or an Obligor Event;

**Dissolution Event Redemption Date** has the meaning given to it in Condition 12(a);

**Dissolution Notice** has the meaning given to it in Condition 12;

**Early Tax Dissolution Date** has the meaning given to it in Condition 8(b);

**Excluded Representations** means any representations given by the Obligor to the Trustee and/or the Delegate pursuant to the Transaction Documents;

**Exercise Notice** means an exercise notice given pursuant to the terms of the Purchase Undertaking and/or the Sale Undertaking (as the case may be);

**Extraordinary Resolution** has the meaning given to it in the Trust Deed;

**Fixed Amount** means the amount specified as such hereon;

**Fixed Rate Certificates** means a Series in respect of which Fixed Periodic Distribution Amounts are specified as applicable hereon;

**Floating Rate Certificates** means a Series in respect of which Floating Periodic Distribution Amounts are specified as applicable hereon;

**Full Reinstatement Value** has the meaning given to it in the Service Agency Agreement;

**Initial Wakala Portfolio** has the meaning given to it in the Supplemental Purchase Contract;

**ISDA Definitions** means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon;

**LCIA** means the London Court of International Arbitration;

**LCIA Rules** means the Arbitration Rules of the London Court of International Arbitration;

**Liability** means any loss, damage, cost, charge, claim, demand, expense, fee, judgment, action, proceeding or other liability whatsoever (including, without limitation in respect of taxes) and

including any value added tax or similar tax charged or chargeable in respect thereof and legal or other fees and expenses on a full indemnity basis and references to **Liabilities** shall mean all of these;

**Management Agreement** means the corporate services agreement entered into between the Trustee and the Trustee Administrator dated 13 April 2015;

**Master Lease Agreement** means the master lease agreement dated 14 April 2015 between the Trustee (in its capacity as lessor, the **Lessor**) and the Obligor (in its capacity as lessee, the **Lessee**);

**Master Purchase Agreement** means the master purchase agreement dated 14 April 2015 between the Trustee (in its capacity as purchaser) and the Obligor (in its capacity as seller);

**Material Subsidiary** means at any relevant time a Subsidiary of the Obligor:

- (i) whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total income (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent not less than 10 per cent. of the consolidated total assets, or, as the case may be, the consolidated total income of the Obligor and its Subsidiaries taken as a whole, all as calculated respectively by reference to the latest financial statements (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited consolidated financial statements of the Obligor, provided that in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated financial statements of the Obligor relate for the purpose of applying each of the foregoing tests, the reference to the Obligor's latest audited consolidated financial statements shall be deemed to be a reference to such financial statements as if such Subsidiary had been shown therein by reference to its then latest relevant financial statements, adjusted as deemed appropriate by the auditors of the Obligor for the time being after consultation with the Obligor; or
- (ii) to which is transferred all or substantially all of the business, undertaking and assets of another Subsidiary which immediately prior to such transfer is a Material Subsidiary, whereupon (A) in the case of a transfer by a Material Subsidiary, the transferor Material Subsidiary shall immediately cease to be a Material Subsidiary and (B) the transferee Subsidiary shall immediately become a Material Subsidiary, provided that on or after the date on which the relevant financial statements for the financial period current at the date of such transfer are published, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Material Subsidiary shall be determined pursuant to the provisions of sub-paragraph (i) above; and

a Certificate addressed to the Delegate signed by two Directors of the Obligor certifying that in their opinion a Subsidiary is or is not or was or was not at any particular time or during a particular period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties and the Delegate shall be entitled to rely on such certificate without liability to any person;

**Maximum Optional Dissolution Amount** means the amount specified as such hereon;

**Minimum Optional Dissolution Amount** means the amount specified as such hereon;

**Obligor Event** means any of the following events:

- (i) **Non-payment:** the Obligor (acting in any capacity) fails to pay an amount in the nature of profit (corresponding to the Periodic Distribution Amounts payable by the Trustee under the Certificates) payable by it pursuant to the Transaction Documents to which it is a party and the failure continues for a period of 14 days, or the Obligor (acting in any capacity) fails to pay an amount in the nature of principal (corresponding to the Dissolution Distribution Amounts payable by the Trustee under the Certificates) payable by it pursuant to the Purchase Undertaking and the failure continues for a period of seven days; or
- (ii) **Breach of Other Obligations:** the Obligor (acting in any capacity) does not perform or comply with any one or more of its covenants or other obligations under the Master Trust Deed to which it is a party which default is incapable of remedy or, if in the opinion of the Delegate capable of remedy, is not in the opinion of the Delegate remedied within 30 days after written notice of such default shall have been given to the Obligor by the Trustee or the Delegate; or
- (iii) **Cross-Acceleration:** (A) any other present or future indebtedness of the Obligor or any Material Subsidiary for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any event of default (howsoever described); or (B) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period; or (C) the Obligor or any Material Subsidiary fails to pay when due or, as the case may

be, within any originally applicable grace period any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this sub-paragraph (iii) shall have occurred and be continuing equals or exceeds U.S.\$10,000,000 (or its equivalent in any currency or currencies); or

- (iv) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Obligor or any Material Subsidiary and is not discharged or stayed within 30 days; or
- (v) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Obligor or any Material Subsidiary and securing an amount which equals or exceeds U.S.\$10,000,000 (or its equivalent in any currency or currencies) becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator, manager or other similar person); or
- (vi) **Insolvency:** the Obligor or any Material Subsidiary is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting any of such debts; or
- (vii) **Winding-up:** an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Obligor or any Material Subsidiary, or the Obligor or any Material Subsidiary shall apply or petition for a winding-up or administration order in respect of itself or cease or through an official action of its board of directors threaten to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders; or
- (viii) **Illegality:** (A) the Obligor or any liquidator of the Obligor repudiates or disclaims responsibility under any Transaction Document to which the Obligor is a party; or (B) at any time it is or it becomes unlawful for the Obligor (acting in any capacity) to perform or comply with any or all of its obligations under or in respect of the Transaction Documents to which it is a party, or (C) any of the obligations of the Obligor (acting in any capacity) under or in respect of the Transaction Documents are not, or cease to be, legal, valid, binding and enforceable; or
- (ix) **Authorisations and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order: (A) to enable the Obligor lawfully to enter into, exercise its rights and perform and comply with its obligations under the Transaction Documents to which it is a party; or (B) to ensure that those obligations are legally binding and enforceable, is not taken, fulfilled or done; or
- (x) **Analogous Effect:** any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs (v) and (vi),

provided that, in the case of paragraph (ii) only, the Delegate shall have certified that in its opinion such event is materially prejudicial to the interests of the Certificateholders.

References in paragraph (iii) (*Cross-Acceleration*) and (v) (*Insolvency*) above to **indebtedness** and **debts**, respectively, shall be deemed to include any debt or other financing arrangement issued (or intended to be issued) in compliance with the principles of *Shari'a*, whether entered into directly or indirectly by the Obligor;

**Optional Dissolution Date** means, in relation to any exercise of the Optional Dissolution Right, the date(s) specified as such hereon and which must (if the Certificate is a Floating Rate Certificate) be a Periodic Distribution Date;

**Optional Dissolution Right** means the right specified in Condition 8(c);

**outstanding** shall have the meaning given to it in the Trust Deed;

**Periodic Distribution Amount** has the meaning given to it in Condition 7;

**Periodic Distribution Date** means the date or dates specified as such hereon;

**Periodic Distribution Period** means the period beginning on and including the Profit Commencement Date and ending on but excluding the first Periodic Distribution Date and each successive period beginning on and including a Periodic Distribution Date and ending on but excluding the next succeeding Periodic Distribution Date;

**Potential Dissolution Event** means any condition, event or act which, with the giving of notice, lapse of time, declaration, demand, determination or fulfilment of any other applicable condition (or any combination of the foregoing) would constitute a Dissolution Event;

**Proceedings** has the meaning given to it in Condition 19(e)(iii);

**Profit Amount** means:

- (i) in respect of a Return Accumulation Period, the amount of profit payable per Calculation Amount for that Return Accumulation Period and which, in the case of Fixed Rate Certificates, and unless otherwise specified hereon, shall mean the Fixed Amount or Broken Amount specified hereon as being payable on the Periodic Distribution Date ending the Periodic Distribution Period of which such Return Accumulation Period forms part; and
- (ii) in respect of any other period, the amount of profit payable per Calculation Amount for that period;

**Profit Commencement Date** means the Issue Date or such other date as may be specified hereon;

**Profit Period Date** means each Periodic Distribution Date unless otherwise specified hereon;

**Profit Rate** means the profit rate payable from time to time in respect of this Certificate and that is either specified hereon or calculated in accordance with the provisions hereof;

**Profit Rate Determination Date** means, with respect to a Profit Rate and Return Accumulation Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Return Accumulation Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Return Accumulation Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Return Accumulation Period if the Specified Currency is euro;

**Purchase Agreement** means the Master Purchase Agreement as supplemented by the applicable Supplemental Purchase Contract;

**Purchase Undertaking** means the purchase undertaking dated 14 April 2015 and granted by the Obligor for the benefit of the Trustee and the Delegate;

**Purchaser** means the Trustee in its capacity as such pursuant to the Master Purchase Agreement;

**Record Date** has the meaning given to it in Condition 9(a);

**Reference Banks** means four major banks selected by the Calculation Agent in the inter-bank market that is most closely connected with the Reference Rate;

**Reference Rate** means one of the following benchmark rates (specified hereon) in respect of the currency and period specified hereon:

- (i) LIBOR;
- (ii) EURIBOR;
- (iii) KIBOR;
- (iv) SHIBOR;
- (v) HIBOR;
- (vi) KLIBOR;
- (vii) TRLIBOR or TRYLIBOR;
- (viii) SIBOR;
- (ix) EIBOR;
- (x) TIBOR; and
- (xi) SAIBOR;

**Register** has the meaning given to it in Condition 2;

**Relevant Date** has the meaning given to it in Condition 10;

**Relevant Financial Centre** means the financial centre specified as such hereon, and if no such financial centre is specified, the financial centre most closely connected with the relevant Reference Rate;

**Relevant Indebtedness** means any present or future indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or are capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market;

**Relevant Powers** has the meaning given to it in Condition 15(a);

**Relevant Screen Page** means such page, section, caption, column or other part of a particular information service as may be specified hereon;

**Relevant Sukuk Obligation** means any present or future undertaking or other obligation to pay any money given in connection with any issue of trust certificates or other securities intended to be issued in compliance with the principles of *Shari'a*, whether or not in return for consideration of any kind, which for the time being are, or are intended to be, or are capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market;

**Relevant Time** means the time specified as such hereon;

**Return Accumulation Period** means the period beginning on (and including) the Profit Commencement Date and ending on (but excluding) the first Profit Period Date and each successive period beginning on (and including) a Profit Period Date and ending on (but excluding) the next succeeding Profit Period Date;

**Sale Undertaking** means the sale undertaking dated 14 April 2015 and granted by the Trustee for the benefit of the Obligor;

**Scheduled Dissolution Date** means the date specified as such hereon;

**Self-Use Asset** means any plot of land or other asset which is either: (i) to be developed in accordance with a development plan; or (ii) already developed but not externally leased to third parties, which is to form part of the Wakala Portfolio;

**Series** means a series of Certificates which are identical in all respects;

**Service Agency Agreement** means the service agency agreement dated 14 April 2015 between the Trustee and the Obligor (in its capacity as servicing agent);

**Servicing Agent** means the Obligor in its capacity as such pursuant to the Service Agency Agreement;

**Specified Currency** means the currency specified as such hereon or, if none is specified, the currency in which the Certificates are denominated;

**Specified Denominations** means the amount(s) specified as such hereon;

**Subsidiary** means any entity:

- (i) which is then directly or indirectly controlled by the Obligor; or
- (ii) more than 50 per cent. of whose issued equity share capital (or equivalent) is then beneficially owned by the Obligor; or
- (iii) whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Obligor.

for the purposes of this definition, for an entity to be **controlled** by the Obligor means that the Obligor (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract, trust or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that entity or otherwise controls, or has the power to control, the affairs and policies of that entity;

**Supplemental Lease Contract** means a supplemental lease contract entered into between the Lessor and the Lessee under the Master Lease Agreement;

**Supplemental Purchase Contract** means the supplemental purchase contract to be dated the Issue Date of the relevant Series between the Trustee and the Obligor for purchase of the Initial Wakala Portfolio;

**TARGET Business Day** has the meaning given to it in Condition 7(i);

**TARGET System** means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto;

**Transaction Account** means, in relation to each Series, the account in the Trustee's name held with The Bank of New York Mellon, London Branch and into which the Obligor will deposit all amounts due to the Trustee under the Transaction Documents, details of which are specified hereon;

**Transaction Documents** means, in relation to each Series:

- (i) the relevant Certificates;
- (ii) the Master Trust Deed as supplemented by the relevant Supplemental Trust Deed;
- (iii) the Agency Agreement;
- (iv) the Master Lease Agreement and any Supplemental Lease Contract;
- (v) the Master Purchase Agreement as supplemented by the relevant Supplemental Purchase Contract;
- (vi) the Service Agency Agreement;
- (vii) the Sale Undertaking (together with each relevant sale agreement or transfer agreement executed upon exercise of the Sale Undertaking); and
- (viii) the Purchase Undertaking (together with each relevant sale agreement or transfer agreement executed upon exercise of the Purchase Undertaking),  
each as may be amended, restated and/or supplemented from time to time;

**Trust** means, in respect of a Series, the trust created by the Trustee over the Trust Assets pursuant to the Trust Deed;

**Trust Assets** has the meaning given to it in Condition 5(a);

**Trustee Administrator** means MaplesFS Limited;

**Trustee Event** means any of the following events:

- (i) **Non-Payment:** default is made for more than seven days in the payment of any Dissolution Distribution Amount on the date fixed for payment thereof or default is made for more than 14 days in the payment of any Periodic Distribution Amount on the due date for payment thereof; or
- (ii) **Breach of Other Obligations:** the Trustee does not perform or comply with any one or more of its other obligations under the Certificates or the Master Trust Deed; or
- (iii) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Trustee and is not discharged or stayed within 30 days; or
- (iv) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Trustee becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator, manager or other similar person); or
- (v) **Insolvency:** the Trustee is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of (or of a particular type of) the debts of the Trustee; or
- (vi) **Winding-up:** an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Trustee, or the Trustee shall apply or petition for a winding-up or administration order in respect of itself or cease or through an official action of its board of directors threaten to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders; or
- (vii) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order: (x) to enable the Trustee lawfully to enter into, exercise its rights and perform and comply with its obligations

under the Certificates and the Transaction Documents; (y) to ensure that those obligations are legally binding and enforceable; or (z) to make the Certificates and the Transaction Documents admissible in evidence in the courts of the Cayman Islands is not taken, fulfilled or done; or

- (viii) **Illegality:** it is or will become unlawful for the Trustee to perform or comply with any one or more of its obligations under any of the Certificates or the Transaction Documents or any obligations of the Trustee under the Transaction Documents are not or cease to be legal, valid, binding and enforceable; or
- (ix) **Repudiation:** the Trustee repudiates any Transaction Document or does or causes to be done any act or thing evidencing an intention to repudiate any Transaction Document; or
- (x) **Analogous Events:** any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs (v) and (vi) above.

For the purpose of paragraph (i) (*Non-payment*) above, all amounts payable in respect of the Certificates shall be considered due and payable (including any amounts calculated as being payable under Condition 7 (*Periodic Distribution Amounts*)) notwithstanding that the Trustee has at the relevant time insufficient funds or relevant Trust Assets to pay such amounts;

**Wakala Assets** has the meaning given to it in the Master Purchase Agreement; and

**Wakala Portfolio** has the meaning given to it in the Service Agency Agreement.

All references to the **face amount** of a Certificate shall be deemed to include the relevant Dissolution Distribution Amount, any additional amounts (other than relating to Periodic Distribution Amounts) which may be payable under Condition 10 and any other amount in the nature of face amounts payable pursuant to these Conditions.

All references to **Periodic Distribution Amounts** shall be deemed to include any additional amounts in respect of profit distributions which may be payable under Condition 10 and any other amount in the nature of a profit distribution payable pursuant to these Conditions.

All references to **U.S.\$**, **U.S. dollars** and **\$** are to the lawful currency of the United States of America.

All references to **ISDA** and related terms are only included for the purposes of benchmarking.

## 2 Form, Denomination and Title

The Certificates are issued in registered form in the Specified Denomination(s) shown hereon. The Certificates may be Fixed Rate Certificates, Floating Rate Certificates or a combination of the foregoing, depending upon the profit basis specified hereon.

Certificates are represented by registered certificates and, save as provided in Condition 3(c), each Certificate shall represent the entire holding of Certificates by the same holder.

Title to the Certificates shall pass by registration in the register that the Trustee shall procure to be kept by the Registrar outside the United Kingdom in accordance with the provisions of the Agency Agreement (the **Register**). Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the Register. Except as ordered by a court of competent jurisdiction or as required by law, the registered holder of any Certificate shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it or its theft or loss and no person shall be liable for so treating the holder. The registered holder of a Certificate will be recognised by the Trustee as entitled to his Certificate free from any equity, set-off or counterclaim on the part of the Trustee against the original or any intermediate holder of such Certificate.

In these Conditions, **Certificateholder** or **holder** means the person in whose name a Certificate is registered and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Certificates.

*Upon issue, the Certificates will be represented by a Global Certificate which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg (as applicable), and their respective participants. The Conditions are modified by certain provisions contained in the Global Certificate.*

*Except in limited circumstances, owners of interests in the Global Certificate will not be entitled to receive definitive Certificates representing their holdings of Certificates. See “Summary of Provisions Relating to the Certificates while in Global Form”.*

### 3 Transfers

- (a) **Transfer of Certificates:** Subject to Condition 3(e), one or more Certificates may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the certificate representing such Certificates to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Trustee) duly completed and executed and any other evidence as the Registrar or the relevant Transfer Agent may require. In the case of a transfer of part only of a holding of Certificates represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Certificates to a person who is already a holder of Certificates, a new certificate representing the enlarged holding shall only be issued against surrender of the certificate representing the existing holding. All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning transfers of Certificates scheduled to the Agency Agreement. The regulations may be changed by the Trustee, with the prior written approval of the Registrar and the Delegate or by the Registrar with the prior written approval of the Delegate, provided that any such change is not materially prejudicial to the interests of the Certificateholders. A copy of the current regulations will be made available by the Registrar to any Certificateholder upon request.
- (b) **Exercise of Options or Partial Dissolution in Respect of Certificates:** In the case of an exercise of the Obligor’s or the Certificateholders’ option in respect of, or a partial redemption of, a holding of Certificates represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding for which no payment was made. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent.
- (c) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 3(a) or 3(b) shall be available for delivery within five business days of receipt of the form of transfer or Certificateholder Put Exercise Notice and surrender of the Certificate for exchange. Delivery of the new Certificate shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer or Certificateholder Put Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or Certificateholder Put Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance or takaful as it may specify. In this Condition 3(c), **business day** means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- (d) **Transfers Free of Charge:** Transfers of Certificates on registration, transfer, exercise of an option or partial dissolution shall be effected without charge by or on behalf of the Trustee, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security as the Trustee, the Registrar or the relevant Transfer Agent may require).
- (e) **Closed Periods:** No Certificateholder may require the transfer of a Certificate to be registered: (i) during the period of 15 days ending on (and including) the due date for payment of any Dissolution Distribution Amount or Periodic Distribution Amount or any other date on which any payment of the face amount or payment of any profit in respect of that Certificate falls due; (ii) during the period of 15 days prior to any date on which

Certificates may be called for redemption pursuant to Condition 8(c); (iii) after any such Certificate has been called for redemption; or (iv) during the period of seven days ending on (and including) any Record Date.

#### 4 Status

- (a) **Status of Certificates:** The Certificates represent an undivided beneficial ownership interest in the relevant Trust Assets and are limited recourse obligations of the Trustee. Each Certificate will constitute unsecured obligations of the Trustee and shall at all times rank *pari passu* and without any preference or priority with all other Certificates of the relevant Series.

The payment obligations of the Obligor (in any capacity) to the Trustee under the Transaction Documents in respect of each Series of Certificates are direct, unconditional, unsubordinated and (subject to the negative pledge provisions described in Condition 6(b)) unsecured obligations of the Obligor and shall, save for such exceptions as may be provided by applicable legislation and subject to the negative pledge provisions described in Condition 6(b), at all times rank at least equally with all other unsecured and unsubordinated monetary obligations of the Obligor, present and future.

- (b) **Limited Recourse and Agreement of Certificateholders:** Save as provided in this Condition 4(b), the Certificates do not represent an interest in or obligation of any of the Trustee, the Delegate, the Obligor, any of the Agents or any of their respective affiliates.

The proceeds of the relevant Trust Assets are the sole source of payments on the Certificates of each Series. The net proceeds of the realisation of, or enforcement with respect to, the relevant Trust Assets may not be sufficient to make all payments due in respect of the Certificates. Certificateholders, by subscribing for or acquiring the Certificates, acknowledge and agree that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

- (i) no payment of any amount whatsoever shall be made by the Trustee or the Delegate or any directors, officers, employees or agents on their behalf except to the extent funds are available therefor from the relevant Trust Assets and further acknowledge and agree that no recourse shall be had for the payment of any amount due and owing hereunder or under any Transaction Document, whether for the payment of any fee, indemnity or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Trustee to the extent the Trust Assets have been exhausted, following which all obligations of the Trustee shall be extinguished;
- (ii) the Trustee may not sell, transfer, assign or otherwise dispose of the Wakala Portfolio to a third party, and may only realise its rights, title, interest, benefits and entitlements, present and future, in, to and under the Wakala Portfolio in the manner expressly provided in the Transaction Documents;
- (iii) if the proceeds of the Trust Assets are insufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (and/or its directors, officers, shareholders or corporate services providers in their capacity as such) (other than the relevant Trust Assets) or the Delegate or the Agents or any of their respective directors, officers, employees, agents, shareholders or affiliates, in respect of any shortfall or otherwise;
- (iv) no Certificateholders will be able to petition for, institute, or join with any other person in instituting proceedings for, the reorganisation, arrangement, liquidation, bankruptcy, winding-up or receivership or other proceedings under any bankruptcy or similar law against the Trustee, the Delegate, the Agents or any of their respective directors, officers, employees, agents, shareholders or affiliates as a consequence of such shortfall or otherwise;
- (v) no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Trustee or the Delegate arising under or in connection with the Trust Deed and the Certificates by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer, employee, agent, director or corporate services provider of the Trustee in their capacity as such. The obligations of the

Trustee and the Delegate under the Transaction Documents are corporate or limited liability obligations of the Trustee and/or the Delegate and no personal liability shall attach to or be incurred by the shareholders, members, officers, agents, directors or corporate services provider of the Trustee and/or the Delegate (in their capacity as such), save in the case of their wilful default or actual fraud. Reference in these Conditions to wilful default or actual fraud means a finding to such effect by a court of competent jurisdiction in relation to the conduct of the relevant party; and

- (vi) it shall not be entitled to claim or exercise any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Certificate. No collateral is or will be given for the payment obligations under the Certificates (without prejudice to the negative pledge provisions described in Condition 6(b)).

Pursuant to the terms of the Transaction Documents, the Obligor is obliged to make payments under the relevant Transaction Documents to which it is a party directly to or to the order of the Trustee. Such payment obligations form part of the Trust Assets and the Trustee and the Delegate will thereby have direct recourse against the Obligor to recover payments due to the Trustee from the Obligor pursuant to such Transaction Documents notwithstanding any other provision of this Condition 4(b). Such right of the Trustee and the Delegate shall (subject to the negative pledge provisions described in Condition 6(b)) constitute an unsecured claim against the Obligor. None of the Certificateholders, the Trustee or the Delegate shall be entitled to claim any priority right in respect of any specific assets of the Obligor in connection with the enforcement of any such claim.

## 5 The Trust

- (a) **Trust Assets:** Pursuant to the Trust Deed, the Trustee holds the Trust Assets for each Series upon trust absolutely for and on behalf of the Certificateholders of such Series *pro rata* according to the face amount of Certificates held by each holder. The term **Trust Assets** in respect of each Series means the following:
  - (i) the cash proceeds of the issue of Certificates, pending application thereof in accordance with the terms of the Transaction Documents;
  - (ii) the rights, title, interest, benefits and entitlements, present and future of the Trustee in, to and under the Wakala Portfolio;
  - (iii) the rights, title, interest, benefits and entitlements, present and future of the Trustee in, to and under the Transaction Documents (excluding the Excluded Representations and the covenant given to the Trustee pursuant to Clause 13.1 of the Master Trust Deed);
  - (iv) all moneys standing to the credit of the Transaction Account from time to time, and all proceeds of the foregoing.

*See "Summary of Principal Transaction Documents" appearing elsewhere in this Base Prospectus for more information on the Trust Assets and the Transaction Documents.*

- (b) **Application of Proceeds from Trust Assets:** On each Periodic Distribution Date and on any Dissolution Date the Principal Paying Agent shall apply the moneys standing to the credit of the relevant Transaction Account in the following order of priority (in each case only if and to the extent that payments of a higher priority have been made in full):
  - (i) **first**, (to the extent not previously paid) to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate (including any amounts owing to the Delegate in respect of its Appointees (as defined in the Master Trust Deed)) and to any receiver, manager or administrative receiver or any other analogous officer appointed in respect of the Trust by the Delegate in accordance with the Trust Deed;
  - (ii) **second**, only if such payment is due on a Periodic Distribution Date (to the extent not previously paid) to pay, *pro rata* and *pari passu* (i) the Trustee Administrator in respect of all amounts owing to it under the Transaction Documents, the Management Agreement and the Registered Office Agreement in its capacity as

- trustee administrator; and (ii) the Agents in respect of all amounts owing to them under the Transaction Documents in their capacities as Principal Paying Agent, Registrar, Transfer Agent and Calculation Agent;
- (iii) **third**, in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due but unpaid;
  - (iv) **fourth**, only if such payment is due on a Dissolution Date, in or towards payment *pari passu* and rateably of the relevant Dissolution Distribution Amount; and
  - (v) **fifth**, only on the Scheduled Dissolution Date (or any earlier date on which the Certificates are redeemed in full) and provided that all amounts required to be paid in respect of the Certificates hereunder have been discharged in full, in payment of any residual amount to the Obligor in its capacity as Servicing Agent as an incentive payment for its performance as managing agent under the Service Agency Agreement.
- (c) **Transaction Account:** The Trustee will establish a Transaction Account in respect of each Series by no later than the relevant Issue Date. The Transaction Account shall be operated by the Principal Paying Agent on behalf of the Trustee for the benefit of Certificateholders and shall be the account into which the Obligor will deposit all amounts payable by it to the Trustee pursuant to the terms of the Transaction Documents.

## 6 Covenants

- (a) **Trustee Covenants:** The Trustee covenants that for so long as any Certificate is outstanding, it shall not (without the prior written consent of the Delegate):
- (i) incur any indebtedness in respect of financed, borrowed or raised money whatsoever (whether structured (or intended to be structured) in accordance with the principles of *Shari'a* or otherwise), or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents;
  - (ii) secure any of its present or future indebtedness by any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law (if any) and other than under or pursuant to any of the Transaction Documents);
  - (iii) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of its interests in any of the Trust Assets except pursuant to any of the Transaction Documents;
  - (iv) except as provided in Condition 14, amend or agree to any amendment of any Transaction Document to which it is a party (other than in accordance with the terms thereof) or its constitutional documents;
  - (v) except as provided in the Trust Deed, act as trustee in respect of any trust other than the Trust or in respect of any parties other than the Certificateholders;
  - (vi) have any subsidiaries or employees;
  - (vii) redeem any of its shares or pay any dividend or make any other distribution to its shareholders;
  - (viii) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;
  - (ix) put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding-up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it; or
  - (x) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party or as expressly contemplated, permitted or required thereunder or engage in any business or activity other than:
    - (A) as contemplated, provided for or permitted in the Transaction Documents;

- (B) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and
  - (C) such other matters which are incidental thereto.
- (b) **Obligor Negative Pledge:** The Obligor undertakes that, for so long as any Certificate remains outstanding, it will not and will ensure that none of its Material Subsidiaries will create or have outstanding any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or Relevant Sukuk Obligation, or to secure any guarantee or indemnity in respect of any Relevant Indebtedness or Relevant Sukuk Obligation, without (i) at the same time or prior thereto securing equally and rateably therewith its obligations under the Transaction Documents to which it is party (in whatever capacity) or (ii) providing such other security for those obligations as either (A) the Delegate (on behalf of the Trustee) shall in its absolute discretion deem not materially less beneficial to the interests of Certificateholders; or (B) shall be approved by an Extraordinary Resolution of the holders of the Certificates.

## 7 Periodic Distribution Amounts

- (a) **Fixed Rate Certificates:** Each Fixed Rate Certificate bears profit on its outstanding face amount from the Profit Commencement Date at the rate per annum (expressed as a percentage) equal to the Profit Rate, such profit being payable in arrear on each Periodic Distribution Date. The amount of profit payable shall be determined in accordance with Condition 7(e). Each such amount of profit is referred to in these Conditions as a **Periodic Distribution Amount**. Periodic Distribution Amounts shall be distributed to Certificateholders by the Principal Paying Agent on behalf of the Trustee, *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account and subject to Condition 5(b) and Condition 9.
- (b) **Floating Rate Certificates:**
- (i) *Periodic Distribution Amounts and Periodic Distribution Dates:* Each Floating Rate Certificate bears profit on its outstanding face amount from the Profit Commencement Date at the rate per annum (expressed as a percentage) equal to the Profit Rate, such profit being payable in arrear on each Periodic Distribution Date. The amount of profit payable shall be determined in accordance with Condition 7(e). Each such amount of profit is referred to in these Conditions as a **Periodic Distribution Amount**. Such Periodic Distribution Date(s) is/are either shown hereon as Specified Periodic Distribution Dates or, if no Specified Periodic Distribution Date(s) is/are shown hereon, Periodic Distribution Date shall mean each date which falls the number of months or other period shown hereon as the Periodic Distribution Period after the preceding Periodic Distribution Date or, in the case of the first Periodic Distribution Date, after the Profit Commencement Date. Periodic Distribution Amounts shall be distributed to Certificateholders by the Principal Paying Agent on behalf of the Trustee, *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account and subject to Condition 5(b) and Condition 9.
  - (ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

- (iii) *Profit Rate for Floating Rate Certificates*: The Profit Rate in respect of Floating Rate Certificates for each Return Accumulation Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Certificates

Where ISDA Determination is specified hereon as the manner in which the Profit Rate is to be determined, the Profit Rate for each Return Accumulation Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A) **ISDA Rate** for a Return Accumulation Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon;
- (y) the Designated Maturity is a period specified hereon; and
- (z) the relevant Reset Date is the first day of that Return Accumulation Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity, Reset Date** and **Swap Transaction** have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Certificates

- (x) Where Screen Rate Determination is specified hereon as the manner in which the Profit Rate is to be determined, the Profit Rate for each Return Accumulation Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) at the Relevant Time on the Profit Rate Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

- (y) if the Relevant Screen Page is not available or if, sub-paragraph (x)(1) above applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the Relevant Time, subject as provided below, the Calculation Agent shall request the principal office in the Relevant Financial Centre of each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Relevant Time on the Profit Rate Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Profit Rate for such Return Accumulation Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and
- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Profit Rate shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered at the Relevant Time

on the relevant Profit Rate Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the Relevant Financial Centre inter-bank market, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Relevant Time, on the relevant Profit Rate Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in the Relevant Financial Centre inter-bank market, provided that, if the Profit Rate cannot be determined in accordance with the foregoing provisions of this paragraph (z), the Profit Rate shall be determined as at the last preceding Profit Rate Determination Date (though substituting, where a different Margin or Maximum or Minimum Profit Rate is to be applied to the relevant Return Accumulation Period from that which applied to the last preceding Return Accumulation Period, the Margin or Maximum Profit Rate or Minimum Profit Rate relating to the relevant Return Accumulation Period, in place of the Margin or Maximum Profit Rate or Minimum Profit Rate relating to that last preceding Return Accumulation Period).

- (c) **Entitlement to Profit:** Profit shall cease to accumulate in respect of each Certificate on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event profit shall, subject to the terms of the Transaction Documents, continue to accumulate (both before and after judgment) at the Profit Rate in the manner provided in this Condition 7 to the Relevant Date.
- (d) **Margin, Maximum Profit Rates/Minimum Profit Rates and Rounding:**
- (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Return Accumulation Periods), an adjustment shall be made to all Profit Rates, in the case of (x), or the Profit Rates for the specified Return Accumulation Periods, in the case of (y), calculated in accordance with Condition 7(b) by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
  - (ii) If any Maximum Profit Rate or Minimum Profit Rate is specified hereon, then any Profit Rate shall be subject to such maximum or minimum, as the case may be.
  - (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes **unit** means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.
- (e) **Calculations:** The amount of profit payable per Calculation Amount in respect of any Certificate for any Return Accumulation Period shall be equal to the product of the Profit Rate, the Calculation Amount specified hereon and the Day Count Fraction for such Return Accumulation Period, unless a Profit Amount (or a formula for its calculation) is specified hereon as being applicable to such Return Accumulation Period, in which case the amount of profit payable per Calculation Amount in respect of such Certificate for such Return Accumulation Period shall equal such Profit Amount (or be calculated in accordance with such formula). Where any Periodic Distribution Period comprises two or more Return Accumulation Periods, the amount of profit payable per Calculation Amount in respect of such Periodic Distribution Period shall be the sum of the Profit Amounts payable in respect of each of those Return Accumulation Periods. In respect of any other

period for which profit is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which profit is required to be calculated.

(f) **Linear Interpolation**

Where Linear Interpolation is specified as applicable in respect of a Periodic Distribution Period in the applicable Final Terms, the Profit Rate for such Periodic Distribution Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Periodic Distribution Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Periodic Distribution Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

**Designated Maturity** means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(g) **Determination and Publication of Profit Rates, Profit Amounts and Dissolution Distribution Amounts:**

The Calculation Agent shall, as soon as practicable on each Profit Rate Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Profit Amounts for the relevant Return Accumulation Period, calculate the relevant Dissolution Distribution Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Profit Rate and the Profit Amounts for each Return Accumulation Period and the relevant Periodic Distribution Date and, if required to be calculated, the relevant Dissolution Distribution Amount, to be notified to the Delegate, the Trustee, the Obligor, each of the Paying Agents, the Certificateholders and any other Calculation Agent appointed in respect of the Certificates that is to make a further calculation upon receipt of such information. If the Certificates are listed on a stock exchange and the rules of such exchange or other relevant authority so require, the Calculation Agent shall notify such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Periodic Distribution Period, if determined prior to such time, in the case of notification to such exchange of a Profit Rate and Profit Amount, or (ii) in all other cases, the fourth Business Day after such determination. To the extent that the Calculation Agent is unable to notify a stock exchange or other relevant authority (other than the stock exchange or other relevant authority in each of the United Kingdom, Luxembourg and the Republic of Ireland), the Calculation Agent shall notify the Obligor who shall perform such obligation. Where any Periodic Distribution Date or Profit Period Date is subject to adjustment pursuant to Condition 7(b)(ii), the Profit Amounts and the Periodic Distribution Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Delegate by way of adjustment) without notice in the event of an extension or shortening of the Periodic Distribution Period. If the Certificates become due and payable under Condition 12, the accrued profit and the Profit Rate payable in respect of the Certificates shall nevertheless continue to be calculated as previously in accordance with this Condition 7 but no publication of the Profit Rate or the Profit Amount so calculated need be made unless the Delegate otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of wilful default, bad faith or manifest error) be final and binding upon all parties.

(h) **Determination or Calculation by the Delegate:** If the Calculation Agent does not at any time for any reason determine or calculate the Profit Rate for a Return Accumulation Period or any Profit Amount or Dissolution Distribution Amount, the Delegate may do so (or may appoint an agent on behalf of the Trustee to do so) and such determination or

calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Delegate or, as the case may be, such agent shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

- (i) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

**Business Day** means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a **TARGET Business Day**); and/or
- (iii) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

**Day Count Fraction** means, in respect of the calculation of an amount of profit on any Certificate for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting a Periodic Distribution Period or a Return Accumulation Period, the **Calculation Period**):

- (i) if **Actual/Actual** or **Actual/Actual – ISDA** is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if **Actual/365 (Fixed)** is specified hereon, the actual number of days in the Calculation Period divided by 365;
- (iii) if **Actual/365 (Sterling)** is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of a Periodic Distribution Date falling in a leap year, 366;
- (iv) if **Actual/360** is specified hereon, the actual number of days in the Calculation Period divided by 360;
- (v) if **30/360**, **360/360** or **Bond Basis** is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

**Y<sub>1</sub>** is the year, expressed as a number, in which the first day of the Calculation Period falls;

**Y<sub>2</sub>** is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

**M<sub>1</sub>** is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

**M<sub>2</sub>** is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

**D<sub>1</sub>** is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D<sub>1</sub>** will be 30; and

**D<sub>2</sub>** is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and **D<sub>1</sub>** is greater than 29, in which case **D<sub>2</sub>** will be 30;

- (vi) if **30E/360** or **Eurobond Basis** is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

**Y<sub>1</sub>** is the year, expressed as a number, in which the first day of the Calculation Period falls;

**Y<sub>2</sub>** is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

**M<sub>1</sub>** is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

**M<sub>2</sub>** is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

**D<sub>1</sub>** is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D<sub>1</sub>** will be 30; and

**D<sub>2</sub>** is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case **D<sub>2</sub>** will be 30;

- (vii) if **30E/360 (ISDA)** is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

**Y<sub>1</sub>** is the year, expressed as a number, in which the first day of the Calculation Period falls;

**Y<sub>2</sub>** is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

**M<sub>1</sub>** is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

**M<sub>2</sub>** is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

**D<sub>1</sub>** is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case **D<sub>1</sub>** will be 30; and

**D<sub>2</sub>** is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Scheduled Dissolution Date or (ii) such number would be 31, in which case **D<sub>2</sub>** will be 30;

- (viii) if **Actual/Actual-ICMA** is specified hereon,

- (A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

- (B) if the Calculation Period is longer than one Determination Period, the sum of:

- (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

- (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

**Determination Period** means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

**Determination Date** means the date(s) specified as such hereon or, if none is so specified, the Periodic Distribution Date(s).

- (j) **Calculation Agent:** The Trustee shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Certificate is outstanding. Where more than one Calculation Agent is appointed in respect of the Certificates, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Profit Rate for a Return Accumulation Period or to calculate any Profit Amount or any Dissolution Distribution Amount, as the case may be, or to comply with any other requirement, the Trustee or the Obligor, as the case may be, shall (with the prior approval of the Delegate) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.
- (k) **Notifications, etc. to be final:** All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 7 by the Calculation Agent will (in the absence of wilful default, fraud or manifest error) be binding on the Trustee, the Obligor, the Delegate, the Agents and all Certificateholders. In the absence of wilful default, fraud or manifest error, no liability to the Trustee, the Obligor, the Delegate, any Agent or the Certificateholders shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition 7.

## 8 Redemption and Dissolution of the Trust

- (a) **Dissolution on the Scheduled Dissolution Date:** Unless previously redeemed, or purchased and cancelled, in full, as provided below, each Certificate shall be finally redeemed at its Dissolution Distribution Amount and the Trust shall be dissolved by the Trustee on the Scheduled Dissolution Date specified hereon following the payment of all such amounts in full.
- (b) **Early Dissolution for Taxation Reasons:** If:
  - (i) (A) the Trustee has or will become obliged to pay additional amounts as described under Condition 10 as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands or any political subdivision or, in each case, any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the relevant Series, and (B) such obligation cannot be avoided by the Trustee taking reasonable measures available to it; or
  - (ii) (A) the Obligor has or will become obliged to pay additional amounts to the Trustee pursuant to the terms of any Transaction Document as a result of any change in, or amendment to, the laws or regulations of the United Arab Emirates, the Emirate of Dubai or any political subdivision or, in each case, any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the relevant Series, and (B) such obligation cannot be avoided by the Obligor taking reasonable measures available to it,

(the occurrence of an event described in Condition 8(b)(i) or (ii) being a **Tax Event**), the Obligor may in its sole discretion deliver to the Trustee a duly completed Exercise Notice in accordance with the provisions of the Sale Undertaking and, on receipt of such notice, the Trustee shall, on giving not less than the minimum period and not more than the maximum period of notice specified in the applicable Final Terms to the Delegate and the Certificateholders (which notice shall be irrevocable) redeem the Certificates in whole, but not in part, on any Periodic Distribution Date (if this Certificate is a Floating Rate Certificate) or at any time (if this Certificate is a Fixed Rate Certificate) (such dissolution date being an **Early Tax Dissolution Date**), at their Dissolution Distribution Amount, provided that no such notice of dissolution may be given earlier than 90 days prior to the earliest date on which the Trustee or the Obligor, as the case may be, would be obliged to pay such additional amounts were a payment in respect of the Certificates (in the case of the Trustee) or to the Trustee pursuant to any Transaction Document (in the case of the Obligor) then due.

Prior to the publication of any notice of dissolution pursuant to this Condition 8(b), the Trustee or the Obligor, as the case may be, shall deliver to the Delegate:

- (aa) a certificate signed by two Directors and/or Authorised Signatories of the Trustee (in the case of Condition 8(b)(i)) or the Obligor (in the case of Condition 8(b)(ii)) stating that the obligation referred to in Condition 8(b)(i) or 8(b)(ii), as the case may be, has arisen and cannot be avoided by the Trustee or the Obligor, as the case may be, taking reasonable measures available to it; and
- (bb) an opinion of independent legal advisers of recognised standing to the effect that the Trustee or the Obligor, as the case may be, has or will become obliged to pay additional amounts as a result of such change or amendment,

and the Delegate shall be entitled to accept and rely on such certificate and legal opinion as sufficient evidence of the satisfaction of the conditions precedent set out in Condition 8(b)(i) or, as the case may be, Condition 8(b)(ii) above (without liability to any person), in which event it shall be conclusive and binding on Certificateholders.

Upon expiry of any such notice given in accordance with this Condition 8(b) and payment in full of the Dissolution Distribution Amount to Certificateholders the Trustee shall be bound to dissolve the Trust.

- (c) **Dissolution at the Option of the Obligor (Optional Dissolution Right):** If Optional Dissolution Right is specified as applicable hereon, the Obligor may in its sole discretion deliver to the Trustee a duly completed Exercise Notice in accordance with the provisions of the Sale Undertaking and, on receipt of such notice, the Trustee shall, on giving not less than the minimum period nor more than the maximum period of irrevocable notice specified in the applicable Final Terms to the Delegate and the Certificateholders redeem all or, if so specified in the relevant Exercise Notice, some of the Certificates on any Optional Dissolution Date. Any such redemption of Certificates shall be at their Dissolution Distribution Amount. Any such redemption or exercise must relate to Certificates of a face amount at least equal to the Minimum Optional Dissolution Amount to be redeemed specified hereon and no greater than the Maximum Optional Dissolution Amount to be redeemed specified hereon.

All Certificates in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 8(c). If all (and not some only) of the Certificates are to be redeemed on any Optional Dissolution Date in accordance with this Condition 8(c), upon payment in full of the Dissolution Distribution Amount to all Certificateholders, the Trustee shall be bound to dissolve the Trust.

In the case of a partial redemption, the notice to Certificateholders shall also specify the face amount of Certificates drawn and the holder(s) of such Certificates to be redeemed, which shall have been drawn in such place and in such manner as the Trustee deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

- (d) **Dissolution at the Option of Certificateholders (Certificateholder Put Right):** If Certificateholder Put Right is specified as applicable hereon, the Trustee shall, at the option of the holder of any Certificate, upon the holder of such Certificate giving not less

than the minimum period nor more than the maximum period of notice to the Trustee, redeem such Certificate on the Certificateholder Put Right Date at its Dissolution Distribution Amount. For the purposes thereof, the Trustee shall deliver to the Obligor a duly completed Exercise Notice in accordance with the provisions of the Purchase Undertaking. If all (and not some only) of the Certificates are to be redeemed on any Certificateholder Put Right Date in accordance with this Condition 8(d), upon payment in full of the Dissolution Distribution Amount to all Certificateholders, the Trustee shall be bound to dissolve the Trust.

To exercise such option the holder must deposit the certificate representing such Certificate(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed exercise notice (**Certificateholder Put Exercise Notice**) in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No certificate so deposited and right exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Trustee.

- (e) **Dissolution following a Dissolution Event:** Upon the occurrence and continuation of a Dissolution Event, the Certificates may be redeemed at the Dissolution Distribution Amount and the Trustee may be required to dissolve the Trust, in each case subject to and as more particularly described in Condition 12, as the case may be.
- (f) **Purchases:** Each of the Obligor and the Obligor's subsidiaries may at any time purchase Certificates in the open market or otherwise at any price.
- (g) **Cancellation:** Any Certificates purchased by or on behalf of the Obligor or any of the Obligor's subsidiaries may, at the option of the Obligor, be surrendered for cancellation by surrendering the certificate representing such Certificates to the Registrar and by the Obligor delivering to the Trustee a duly completed Cancellation Notice in accordance with the terms of the Sale Undertaking. Any Certificates so surrendered and all Certificates that are redeemed in accordance with this Condition 8 and/or Condition 12 shall be cancelled forthwith and may not be reissued or resold and the obligations of the Trustee in respect of any such Certificates shall be discharged. If all (and not some only) of the Certificates are cancelled in accordance with this Condition 8(g), the Trustee shall be bound to dissolve the Trust.
- (h) **No other dissolution:** The Trustee shall not be entitled to redeem the Certificates or dissolve the Trust other than as provided in this Condition 8 and Condition 12. Upon payment in full of all amounts due in respect of the Certificates of any Series and the subsequent dissolution of the Trust as provided in this Condition 8 and/or Condition 12 (as the case may be), the Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

## 9 Payments

- (a) **Method of Payment:** Payments of the Dissolution Distribution Amount shall be made against presentation and surrender of the relevant Certificate at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided below.

Payments of Periodic Distribution Amounts in respect of each Certificate shall be paid to the person shown on the Register (or, in the case of a Certificate held by two or more persons, to the person whose name appears first in the Register) at the close of business on the fifteenth day before the due date for payment thereof (the **Record Date**).

Payments of Periodic Distribution Amounts and the Dissolution Distribution Amount in respect of each Certificate shall be made in the Specified Currency by transfer to an account in the Specified Currency maintained by the payee with a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System, as notified by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date.

- (b) **Payments subject to Laws:** Payments will be subject in all cases to: (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 10; and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any

regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 10) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Certificateholders in respect of such payments.

- (c) **Appointment of Agents:** The Principal Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Trustee and their respective specified offices are listed below. The Principal Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Trustee and do not assume any obligation or relationship of agency or trust for or with any Certificateholder. The Trustee reserves the right at any time with the prior written approval of the Delegate to vary or terminate the appointment of the Principal Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Trustee shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) a Paying Agent having a specified office in at least one major European city, (vi) such other agents as may be required by any stock exchange on which the Certificates may be listed, and (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

Notice of any such change or any change of any specified office shall promptly be given by the Trustee to the Certificateholders.

- (d) **Non-Business Days:** If any date for payment in respect of any Certificate is not a business day, the holder shall not be entitled to payment until the next following business day nor to any profit or other sum in respect of such postponed payment. In this Condition 9(d), **business day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets settle payments and are open for business in the place in which the specified office of the Registrar is located, in such jurisdictions as shall be specified as **Financial Centres** hereon and:
- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the Specified Currency, on which foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency; or
  - (ii) (in the case of a payment in euro) which is a TARGET Business Day.

## 10 Taxation

All payments in respect of the Certificates shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Cayman Islands or the United Arab Emirates or the Emirate of Dubai or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Trustee shall pay such additional amounts as shall result in receipt by the Certificateholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Certificate:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Certificate by reason of his having some connection with the Cayman Islands or, in the case of payments by the Obligor, the United Arab Emirates or the Emirate of Dubai other than the mere holding of the Certificate; or
- (b) **Surrender more than 30 days after the Relevant Date:** if the relevant Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrendering the Certificate for payment on the last day of such period of 30 days irrespective of whether that day is a business day (as defined in Condition 9(d)); or

- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) **Payment by another paying agent:** surrendered for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by surrendering the relevant Certificate to another paying agent in a Member State of the European Union.

As used in these Conditions, **Relevant Date** in respect of any Certificate means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Certificateholders that, upon further presentation of the Certificate being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to **Periodic Distribution Amounts** and the **Dissolution Distribution Amount** shall be deemed to include any additional amounts that may be payable under this Condition 10 or any undertaking given in addition to or in substitution for it under the Trust Deed.

*The Transaction Documents provide that payments thereunder by the Obligor shall be made without any deduction or withholding for, or on account of, any present or future taxes, levies, duties, fees, assessments or other charges of any nature, unless such withholding or deduction is required by law and without set-off or counterclaim of any kind. If withholding or deduction is required by law, the Transaction Documents provide for the payment by the Obligor of all additional amounts as will result in the receipt by the Trustee, the Delegate or the relevant Agent, as applicable, of such amounts as would have been received by it if no withholding or deduction had been made.*

*Further, in accordance with the terms of the Master Trust Deed, the Obligor has undertaken to pay such additional amounts as may be necessary pursuant to this Condition 10 so that the full amount due and payable by the Trustee in respect of the Certificates to the Certificateholders is received by the Trustee for the purposes of payment to the Certificateholders in accordance with and subject to the provisions of this Condition 10.*

## 11 Prescription

Claims against the Trustee for payment in respect of the Certificates shall be prescribed and become void unless made within 10 years (in the case of the Dissolution Distribution Amount, or five years (in the case of Periodic Distribution Amounts) from the appropriate Relevant Date in respect of them.

## 12 Dissolution Events

- (a) **Dissolution Event:** If a Dissolution Event occurs and is continuing:
  - (i) the Delegate, upon receiving written notice thereof under the Trust Deed or otherwise upon becoming aware of a Dissolution Event, shall (subject to it being indemnified and/or secured and/or pre-funded to its satisfaction, if required by the Delegate in the circumstances) promptly give notice of the occurrence of the Dissolution Event to the Certificateholders with a request to the Certificateholders to indicate to the Trustee and the Delegate in writing if they wish the Certificates to be redeemed and the Trust to be dissolved; and
  - (ii) the Delegate in its sole discretion may, and shall if so requested in writing by the holders of at least 20 per cent. of the then aggregate face amount of the Series of Certificates outstanding or if so directed by an Extraordinary Resolution (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction), give notice (a **Dissolution Notice**) to the Trustee, the Obligor and the Certificateholders that the Certificates are immediately due and payable at the Dissolution Distribution Amount, whereupon they shall become so due and payable. A Dissolution Notice may be given pursuant to this Condition 12(a)(ii) whether or not notice has been given to Certificateholders as provided in Condition 12(a)(i).

Upon receipt of such Dissolution Notice, the Trustee (or the Delegate in the name of the Trustee) shall deliver an Exercise Notice to the Obligor under the Purchase Undertaking and thereafter execute the relevant sale agreement for purchase of the Wakala Portfolio. The Trustee (or the Delegate in the name of the Trustee) shall use the proceeds thereof to redeem the Certificates at the Dissolution Distribution Amount on the date specified in the relevant Dissolution Notice (the relevant **Dissolution Event Redemption Date**) and the Trust shall be dissolved on the day after the last outstanding Certificate has been so redeemed in full. Upon payment in full of such amounts and dissolution of the Trust as aforesaid, the Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

- (b) **Enforcement and Exercise of Rights:** Upon the occurrence and continuation of a Dissolution Event, to the extent that any amount payable in respect of the Certificates of the relevant Series has not been paid in full (notwithstanding the provision of Condition 12(a)), the Trustee or the Delegate (in each case subject to it being indemnified and/or secured and/or pre-funded to its satisfaction) may (acting for the benefit of the Certificateholders) take one or more of the following steps:
- (i) enforce the provisions of the Transaction Documents against the Obligor; and/or
  - (ii) take such other actions, steps or proceedings as the Trustee or the Delegate may consider necessary to recover amounts due to the Certificateholders.

### 13 Realisation of Trust Assets

- (a) Neither the Trustee or the Delegate shall be bound in any circumstances to take any action, step or proceeding to enforce or to realise the relevant Trust Assets or take any action or steps or proceedings against the Obligor or (in the case of the Delegate) against the Trustee under any Transaction Document to which either of the Trustee or the Obligor is a party unless directed or requested to do so: (i) by an Extraordinary Resolution; or (ii) in writing by the holders of at least 20 per cent. of the then outstanding aggregate face amount of the Series of Certificates and in either case then only if it shall be indemnified and/or secured and/or pre-funded to its satisfaction against all Liabilities to which it may thereby render itself liable or which it may incur by so doing.
- (b) No Certificateholder shall be entitled to proceed directly against the Trustee or the Obligor unless the Delegate or the Trustee, as the case may be, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing. Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the relevant Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and the Obligor shall be to enforce the Trustee's and the Obligor's respective obligations under the Transaction Documents to which they are a party.
- (c) Following the enforcement, realisation and ultimate distribution of the net proceeds of the relevant Trust Assets in respect of the Certificates of the relevant Series to the Certificateholders in accordance with these Conditions and the Trust Deed, the Trustee shall not be liable for any further sums in respect of such Series and, accordingly, Certificateholders may not take any action against the Trustee, the Delegate or any other person (including the Obligor) to recover any such sum in respect of the Certificates or the relevant Trust Assets.
- (d) Conditions 13(a), 13(b) and 13(c) are subject to this Condition 13(d). After enforcing or realising the relevant Trust Assets in respect of the Certificates of the relevant Series and distributing the net proceeds of the relevant Trust Assets in respect of the Certificates of the relevant Series in accordance with Condition 5(b), the obligations of the Trustee in respect of the Certificates of the relevant Series shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate) to recover any further sums in respect of the Certificates of the relevant Series and the right to receive from the Trustee any such sums remaining unpaid shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Trustee.

#### 14 Meetings of Certificateholders, Modification and Waiver

- (a) **Meetings of Certificateholders:** The Trust Deed contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Certificateholders holding not less than 10 per cent. in face amount of the Certificates for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing not less than a clear majority in face amount of the Certificates for the time being outstanding, or at any adjourned meeting two or more persons being or representing Certificateholders whatever the face amount of the Certificates held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*: (i) to amend any Dissolution Date in respect of the Certificates or any date for payment of Periodic Distribution Amounts in respect of the Certificates; (ii) to reduce or cancel the face amount of, or any premium payable on redemption of, the Certificates; (iii) to reduce the rate or rates of profit in respect of the Certificates or to vary the method or basis of calculating the rate or rates or amount of profit or the basis for calculating any Profit Amount in respect of the Certificates; (iv) if a Minimum Profit Rate and/or a Maximum Profit Rate is shown hereon, to reduce any such Minimum Profit Rate and/or Maximum Profit Rate; (v) to vary any method of, or basis for, calculating the Dissolution Distribution Amount; (vi) to vary the currency of payment or denomination of the Certificates, (vii) to modify the provisions concerning the quorum required at any meeting of Certificateholders or the majority required to pass an Extraordinary Resolution; (viii) to modify or cancel the payment obligations of the Obligor (in any capacity) and/or the Trustee under the Transaction Documents and/or the Certificates (as the case may be); or (ix) to amend any of the Obligor's covenants included in the Transaction Documents; or (x) to amend the above list, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in face amount of the Certificates for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Certificateholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Certificateholders.

*For so long as the Certificates are represented by a Global Certificate, an Extraordinary Resolution may also be passed by Certificateholders giving electronic consent, provided that consent to such resolution is given through the relevant clearing system(s) (in a form satisfactory to the Delegate) by or on behalf of not less than 75 per cent. in face amount of the Certificates. See "Summary of Provisions relating to the Certificates while in Global Form".*

- (b) **Modification of the Trust Deed or any Transaction Document:** The Delegate may (but shall not be obliged to), without the consent of the Certificateholders, (i) agree to any modification of any of the provisions of the Trust Deed, the Transaction Documents or the Trustee's memorandum and articles of association that is in its opinion of a formal, minor or technical nature or is made to correct a manifest error, or (ii) (A) agree to any other modification of any of the provisions of the Trust Deed, the Transaction Documents or the Trustee's memorandum and articles of association, or to any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed or the Transaction Documents or (B) determine that any Dissolution Event or Potential Dissolution Event shall not be treated as such provided that such modification, waiver, authorisation or determination is in the opinion of the Delegate not materially prejudicial to the interests of the Certificateholders and is not in contravention of any express direction by Extraordinary Resolution or request in writing by the holders of at least 20 per cent. of the outstanding aggregate face amount of that Series and, in the case of modifications under paragraph (ii)(A) only, is other than in respect of a matter which

requires a special quorum resolution (as defined in paragraph 2.8 of Schedule 3 of the Master Trust Deed). Any such modification, authorisation, determination or waiver shall be binding on the Certificateholders and, unless the Delegate agrees otherwise, such modification shall be notified by the Trustee to the Certificateholders in accordance with Condition 17 as soon as practicable.

- (c) **Entitlement of the Delegate:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Delegate shall have regard to the interests of the Certificateholders as a class and shall not have regard to the consequences of such exercise for individual Certificateholders and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim, from the Trustee, the Obligor or the Delegate any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders.

## 15 Delegate

- (a) **Delegation of Powers:** The Trustee will in the Trust Deed irrevocably and unconditionally appoint the Delegate to be its attorney and in its name, on its behalf and as its act and deeds, to execute, deliver and perfect all documents, and to exercise all of the present and future duties, powers (including the power to sub-delegate), trusts, rights, authorities (including, but not limited to, the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the Trust Deed, that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or Potential Dissolution Event and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, (i) exercise all of the rights of the Trustee under the Purchase Undertaking and any of the other Transaction Documents and make such distributions from the relevant Trust Assets as the Trustee is bound to make in accordance with the Trust Deed (together the **Delegation of the Relevant Powers**), provided that: (i) no obligations, duties, liabilities or covenants of the Trustee pursuant to the Trust Deed or any other Transaction Document shall be imposed on the Delegate by virtue of the Delegation; (ii) in no circumstances will such Delegation of the Relevant Powers result in the Delegate holding on trust the relevant Trust Assets; and (iii) such Delegation of the Relevant Powers shall not include any duty, power, trust, right, authority or discretion to dissolve any of the trusts constituted by the Trust Deed following the occurrence of a Dissolution Event or Potential Dissolution Event or to determine the remuneration of the Delegate. The Trustee shall ratify and confirm all things done and all documents executed by the Delegate in the exercise of all or any of the Relevant Powers.

In addition to the Delegation of the Relevant Powers under the Trust Deed, the Delegate also has certain powers which are vested solely in it from the date of the Master Trust Deed.

The appointment of a delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as sole trustee.

- (b) **Indemnification:** The Trust Deed contains provisions for the indemnification of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking any action, step or proceeding unless indemnified and/or secured and/or pre-funded to its satisfaction. In particular, but without limitation, in connection with the exercise of any of its rights in respect of the relevant Trust Assets or any other right it may have pursuant to the Trust Deed or the other Transaction Documents, the Delegate shall in no circumstances be bound to take any action, step or proceeding unless directed to do so in accordance with Conditions 12 or 13, and then only if it shall also have been indemnified and/or secured and/or pre-funded to its satisfaction.
- (c) **No Liability:** The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Obligor or the Trustee under the Transaction Documents to which it is a party and shall not under any circumstances have any liability or be obliged to account to Certificateholders in respect of any payments which should have been paid by the Obligor or the Trustee but are not so paid and shall not in any circumstances have any liability arising from the relevant Trust Assets other than as expressly provided in these Conditions or in the Trust Deed.

- (d) **Reliance on Opinions, Certificates, Reports and/or Information:** The Delegate may rely on any opinion, certificate, report or information of the auditors or insolvency officials (as applicable) of the Trustee or the Obligor or any other expert or other person called for by or provided to the Delegate (whether or not addressed to the Delegate) in accordance with or for the purposes of the Trust Deed or the other Transaction Documents and such opinion, certificate, report or information may be relied upon by the Delegate (without liability to any person) as sufficient evidence of the facts stated therein notwithstanding that such certificate or report and/or any engagement letter or other document contains a monetary or other limit on the liability of the auditors or insolvency officials of the Trustee or the Obligor or such other expert or other person in respect thereof and notwithstanding that the scope and/or basis of such certificate, report or information may be limited by an engagement or similar letter or by the terms of the certificate, report or information itself and the Delegate shall not be bound in any such case to call for further evidence or be responsible for any liability or inconvenience that may be occasioned by its failure to do so.
- (e) **Proper performance of duties:** Nothing shall, in any case in which the Trustee or the Delegate has failed to show the degree of care and diligence required of it as trustee, in the case of the Trustee (having regard to the provisions of the Trust Deed conferring on it any trusts, powers, authorities or discretions) or as donee and delegate, in the case of the Delegate (having regard to the powers, authorities and discretions conferred on it by the Trust Deed and to the Relevant Powers delegated to it), respectively exempt the Trustee or the Delegate from or indemnify either of them against any Liability for gross negligence, wilful default or actual fraud of which either of them may be guilty in relation to their duties under the Trust Deed.
- (f) **Notice of Events:** The Delegate shall not be responsible for monitoring or ascertaining whether or not a Dissolution Event or Potential Dissolution Event has occurred or exists or is continuing and, unless and until it shall have received express written notice to the contrary, it will be entitled to assume that no such event or circumstance exists or has occurred or is continuing (without any liability to Certificateholders or any other person for so doing).
- (g) **Liability for Trust Assets:** Each of the Trustee and the Delegate is exempted from: (a) any liability in respect of any loss or theft of the Trust Assets or any cash; (b) any obligation to monitor or insure the Trust Assets (other than, with respect to the Trustee, in accordance with the Transaction Documents) or any cash; and (c) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depositary or clearing system or are registered in the name of the Trustee or its nominee, unless such loss or theft arises as a result of gross negligence, wilful default or fraud by the Trustee or the Delegate, as the case may be.

## 16 Replacement of Certificates

If a Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Registrar or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Trustee for the purpose and notice of whose designation is given to Certificateholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Certificate is subsequently presented for payment, there shall be paid to the Trustee on demand the amount payable by the Trustee in respect of such Certificate) and otherwise as the Trustee may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

## 17 Notices

Notices to the holders of Certificates shall be mailed to them at their respective addresses in the Register and shall be deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing.

The Trustee shall also ensure that notices are duly given in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system on which the Certificates are for the time being listed. Any notices shall be deemed to have been given on

the fourth day (being a day other than a Saturday or a Sunday) after being so mailed (or on the date of publication, or if so published more than once or on different dates, on the date of the first publication).

*So long as the Certificates are represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg, or any other clearing system, notices to the holders of the Certificates of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for mailing as required by Condition 17. Any such notice shall be deemed to have been given to the holders of the Certificates on the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system.*

## **18 Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Certificates under the Contracts (Rights of Third Parties) Act 1999 but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## **19 Governing Law and Arbitration**

- (a) **Governing Law:** The Trust Deed (including these Conditions), the Agency Agreement and the Certificates and any non-contractual obligations arising out of or in connection with the same are and shall be governed by, and construed in accordance with, English law.
- (b) **Arbitration:** Subject to Condition 19(c), any dispute, claim, difference or controversy arising out of or in connection with the Master Trust Deed (which includes the Certificates, these Conditions and this Condition 19(b)) (including any dispute as to the existence, validity, interpretation, performance, breach or termination of the Trust Deed or the consequence of its nullity and any dispute relating to any non-contractual obligations arising out of or in connection with it (a **Dispute**)) shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules of the London Court of International Arbitration (the **LCIA**) (the **Rules**), which Rules (as amended from time to time) are deemed to be incorporated by reference into this Condition. For these purposes:
- (i) the seat of arbitration shall be London, England;
  - (ii) there shall be three arbitrators, each of whom shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions; and
  - (iii) the language of the arbitration shall be English.
- (c) **Option to Litigate:** Notwithstanding the agreement described in Condition 19(b) above, the Delegate may, in the alternative and at its sole discretion, by notice in writing to the Trustee and the Obligor in accordance with the Trust Deed:
- (i) within 28 days of service of a Request for Arbitration (as defined in the Rules); or
  - (ii) if no arbitration has commenced,
- require that the Dispute be heard by a court of law. If the Delegate gives such notice, the Dispute to which such notice refers shall be determined in the manner described in Condition 19(e) and any arbitration commenced as described in Condition 19(b) will be terminated. With the exception of the Delegate (whose costs will be borne by the Trustee, failing whom the Obligor), each of the parties to the terminated arbitration will bear its own costs in relation thereto.
- (d) **Notice to Terminate:** If any notice to terminate is given after service of any Request for Arbitration in respect of any Dispute, the Delegate must also promptly give notice to the LCIA Court and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that any such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA Court, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:
- (i) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;
  - (ii) his entitlement to be paid his proper fees and disbursements; and

- (iii) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.
- (e) **Effect of exercise of option to litigate:** If a notice is issued pursuant to Condition 19(c), the following provisions shall apply:
  - (i) subject to paragraph (iii) above, the courts of England or the courts of the Dubai International Financial Centre, at the option of the Delegate, shall have jurisdiction to settle any Dispute and each of the Trustee and the Obligor has in the Master Trust Deed submitted to the jurisdiction of such courts;
  - (ii) each of the Trustee and the Obligor has agreed that the courts of England or the courts of the Dubai International Financial Centre, as applicable, are the most appropriate and convenient courts to settle any Dispute and accordingly will not argue to the contrary; and
  - (iii) as paragraphs (i) and (ii) above are for the benefit of the Delegate for and on behalf of the Certificateholders only, notwithstanding paragraphs (i) and (ii) above, the Delegate shall not be prevented from taking proceedings relating to a Dispute (**Proceedings**) in any other courts with jurisdiction, and to the extent allowed by law, the Delegate may take concurrent Proceedings in any number of jurisdictions.
- (f) **Service of Process:** In the Trust Deed, the Trustee and the Obligor has each irrevocably appointed an agent in England to receive, for it and on its behalf, service of process in any Proceedings or Disputes in England.
- (g) **Waiver of Interest:**
  - (i) Each of the Trustee, the Delegate and the Obligor has irrevocably agreed in the Trust Deed that no interest will be payable or receivable under or in connection therewith and if it is determined that any interest is payable or receivable in connection therewith by a party, whether as a result of any judicial award or by operation of any applicable law or otherwise, such party has agreed to waive any rights it may have to claim or receive such interest and has agreed that if any such interest is actually received by it, it shall hold such amount in a suspense account and promptly donate the same to a registered or otherwise officially recognised charitable organisation.
  - (ii) For the avoidance of doubt, nothing in this Condition 19(g) shall be construed as a waiver of rights in respect of Periodic Distribution Amounts payable under the Certificates, Wakala Portfolio Income Revenues payable under the Service Agency Agreement, the amount of any Exercise Price payable under the Sale Undertaking and/or the Purchase Undertaking or profit of any kind howsoever described payable by the Obligor (in any capacity) or the Trustee (in any capacity) pursuant to the Transaction Documents and/or the Conditions, howsoever such amounts may be described or re-characterised by any court or arbitral tribunal.
- (h) **Waiver of Immunity:** Under the Transaction Documents to which it is a party, the Obligor has agreed that, to the extent that it may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and all other legal proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or its assets or revenues, it will not claim and has irrevocably and unconditionally waived such immunity in relation to any Proceedings or Disputes. Further, the Obligor has irrevocably and unconditionally consented to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any Proceedings or Disputes.

## SUMMARY OF PROVISIONS RELATING TO THE CERTIFICATES WHILE IN GLOBAL FORM

### 1 Initial Issue of Certificates

Each Series of Certificates will initially be represented by a Global Certificate in registered form. Global Certificates will be delivered on or prior to the issue date of the Series to a common depositary for Euroclear and Clearstream, Luxembourg (the **Common Depositary**).

Upon registration of the Certificates in the name of any nominee for, and deposit of the Global Certificate with, a Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a face amount of Certificates equal to the face amount thereof for which it has subscribed and paid.

Certificates that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the applicable Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Certificates that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

### 2 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system (an **Alternative Clearing System**) as the holder of a Certificate represented by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Trustee to the registered holder of the underlying Certificates, and in relation to all other rights arising under the Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Trustee in respect of payments due on the Certificates for so long as the Certificates are represented by such Global Certificate and such obligations of the Trustee will be discharged by payment to the registered holder of the underlying Certificates, as the case may be, in respect of each amount so paid.

### 3 Transfers in part

#### 3.1 Global Certificates

Transfers of the holding of Certificates represented by a Global Certificate pursuant to Condition 3(a) (*Transfer of Certificates*) may only be made in part:

- (i) if the Certificates represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or any Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

- (ii) upon the occurrence of a Dissolution Event,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph (i) above, the holder of the Certificates represented by the relevant Global Certificate has given the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such transfer. Where the holding of Certificates represented by the relevant Global Certificate is only transferable in its entirety, the Certificate issued to the transferee upon transfer of such holding shall be a Global Certificate. Where transfers are permitted in part, Certificates issued to transferees shall not be Global Certificates unless the transferee so requests and certifies to the Registrar that it is, or is acting as a nominee for, Clearstream, Luxembourg, Euroclear and/or an Alternative Clearing System.

### 4 Amendment to Conditions

The Global Certificates contain provisions that apply to the Certificates that they represent, some of which modify the effect of the terms and conditions of the Certificates set out in this Base Prospectus. The following is a summary of certain of those provisions:

#### **4.1 Payments**

All payments in respect of Certificates represented by a Global Certificate will be made (against surrender of that Global Certificate if no further payment falls to be made in respect of the Certificates) to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where **Clearing System Business Day** means Monday to Friday inclusive except 25 December and 1 January.

For the purposes of any payments made in respect of Certificates represented by a Global Certificate, the words “in the place in which the specified office of the Registrar is located” shall not apply to the definition of “business day” in Condition 9(d).

A record of each payment made will be noted on the relevant Register which shall be *prima facie* evidence that such payment has been made in respect of the Certificates.

#### **4.2 Meetings**

The holder of Certificates represented by a Global Certificate shall (unless such Global Certificate represents only one Certificate) be treated as being two persons for the purposes of any quorum requirements of a meeting of Certificateholders. All holders of Certificates are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Certificates comprising such Certificateholder’s holding.

#### **4.3 Optional Dissolution Right**

If any early dissolution right of the Bank is exercised in respect of some but not all of the Certificates of any Series, the rights of accountholders with a clearing system in respect of the Certificates will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg or any other clearing system (as the case may be).

#### **4.4 Certificateholder Put Right**

Any early dissolution right of the Certificateholders provided for in the Conditions of any Certificates while such Certificates are represented by a Global Certificate may be exercised by the holder of the Certificate(s) in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg or any other clearing system (as the case may be).

#### **4.5 Cancellation**

Cancellation of any Certificate represented by a Global Certificate that is surrendered for cancellation (other than upon its redemption in full) will be effected by reduction in the aggregate face amount of the relevant Series of Certificates in the Register.

#### **4.6 Notices**

Notices required to be given in respect of the Certificates represented by a Global Certificate may be given by their being delivered (so long as this Global Certificate is held on behalf of Euroclear and Clearstream, Luxembourg or any other clearing system) to Euroclear, Clearstream, Luxembourg or such other clearing system, as the case may be, or otherwise to the holder of the Global Certificate, rather than by publication as required by the Conditions, provided that such notices must also be given or published in a manner which complies with the rules and regulations of any listing authority, stock exchange, quotation system or other relevant authority on which the Certificates are for the time being listed or admitted to trading or quotation. Any such notice shall be deemed to have been given to the holders of the Certificates on the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system.

### **5 Electronic Consent**

While any Global Certificate is held on behalf of, and registered in the name of any nominee for, a clearing system, then approval of a resolution proposed by the Trustee or the Delegate (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates outstanding (an **Electronic Consent**) shall, for all purposes (including matters

that would otherwise require a special quorum resolution (as defined in the Master Trust Deed), take effect as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held, and shall be binding on all Certificateholders whether or not they participated in such Electronic Consent.

## FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Series, subject only to the deletion of non-applicable provisions, is set out below:

### Final Terms

[Date]

### NOOR SUKUK COMPANY LTD.

Issue of [Aggregate Face Amount of Series] [Title of Certificates]

under the U.S.\$3,000,000,000 Trust Certificate Issuance Programme

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Certificates set forth in the Base Prospectus dated 14 April 2015 [and the supplemental Prospectus dated [●]] which [together] constitute[s] a base prospectus (the **Base Prospectus**). This document constitutes the Final Terms of the Certificates described herein and must be read in conjunction with the Base Prospectus. Full information on the Trustee, the Obligor and the offer of the Certificates is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing during normal business hours at the registered office of the Trustee at c/o MaplesFS Limited, Queensgate House, P.O. Box 1093, Grand Cayman, KY1-1102, Cayman Islands and copies may be obtained during normal business hours from the registered office of the Principal Paying Agent at One Canada Square, London E14 6AL, United Kingdom.

- |    |                                  |   |
|----|----------------------------------|---|
| 1  | (a) Issuer and Trustee:          | Noor Sukuk Company Ltd.   |
|    | (b) Obligor and Servicing Agent: | Noor Bank PJSC  |
| 2  | Series Number:                   | [●]   |
| 3  | Specified Currency:              | [●]   |
| 4  | Aggregate Face Amount of Series: | [●]   |
| 5  | Issue Price:                     | [●] per cent. of the Aggregate Face Amount [plus accrued profit from [insert date] (if applicable)]   |
| 6  | (a) Specified Denominations:     | [●]   |
|    | (b) Calculation Amount:          | [●]   |
|    |                                  | <i>(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the in the case of two or more Specified Denominations.)</i> |
| 7  | (a) Issue Date:                  | [●]   |
|    | (b) Profit Commencement Date:    | [[●]/Issue Date]  |
| 8  | Scheduled Dissolution Date:      | [Fixed Rate Certificates – Specify date / Floating Rate Certificates – Periodic Distribution Date falling in or nearest to [specify month and year].]   |
| 9  | Profit Basis:                    | [[●] per cent. Fixed Periodic Distribution Amount] [[specify reference rate] +/- [●] per cent. per annum Floating Distribution Amount] (further particulars specified below)  |
| 10 | Dissolution Basis:               | The Certificates will be redeemed at [100] per cent. of their aggregate face amount.  |

- 11 Change of Profit Basis: [Specify the date when any fixed to floating rate change occurs or cross refer to paragraphs 15 and 16 below and identify these/Not Applicable]
- 12 Put/Call Rights: [Not Applicable]  
[Optional Dissolution Right]  
[Certificateholder Put Right]
- 13 Status: Unsubordinated
- 14 Date of Trustee's Board approval and date of Obligor's Board approval for issuance of Certificates: [●] and [●], respectively  
*(N.B. Only relevant where Board (or similar) authorisation is required for the particular Series of Certificates.)*

**Provisions relating to profit payable**

- 15 Fixed Rate Periodic Distribution Provisions: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph.)*
- (a) Profit Rate(s): [●] per cent. per annum payable [annually/semi-annually/quarterly/monthly/[●]] in arrear on each Periodic Distribution Date
- (b) Periodic Distribution Date(s): [[●] in each year up to and including the Scheduled Dissolution Date, commencing on [●]/[●]]  
*(N.B. This will need to be amended in the case of long or short return accumulation periods.)*
- (c) Fixed Amount(s): [●] per Calculation Amount
- (d) Broken Amount(s): [[●] per Calculation Amount, payable on the Periodic Distribution Date falling [in/on] [●]/Not Applicable]
- (e) Day Count Fraction: [Actual/Actual]  
[Actual/Actual – ISDA]  
[Actual/365 (Fixed)]  
[Actual/365 (Sterling)]  
[Actual/360]  
[30/360]  
[360/360]  
[Bond Basis]  
[30E/360]  
[Eurobond Basis]  
[30E/360 (ISDA)]  
[Actual/Actual – ICMA]
- (f) Determination Date(s): [[●] in each year/Not Applicable]  
*(Only relevant where Day Count Fraction is Actual / Actual (ICMA). In such a case, insert regular Periodic Distribution Dates, ignoring issue date or maturity date in the case of Periodic Distribution Dates which are not used in respect of period of equal duration.)*
- 16 Floating Periodic Distribution Provisions: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph.)*
- (a) Specified Periodic Distribution Dates: [[●] in each year, commencing on [●], [subject to

adjustment in accordance with the Business Day Convention set out in (b) below/not subject to any adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]

- (b) Periodic Distribution Period: [Not Applicable]/[●]
- (c) Profit Period Date [Not Applicable]/[●]
- (d) Business Day Convention: [Floating Rate Business Day Convention/  
Following Business Day Convention/Modified  
Following Business Day Convention/Preceding  
Business Day Convention/[●]] [Not Applicable]
- (e) Business Centre(s): [●] [Not Applicable]
- (f) Manner in which the Profit Rate and  
the Periodic Distribution Amount are  
to be determined: [Screen Rate Determination/ISDA Determination]
- (g) Party responsible for calculating the  
Profit Rate and the Periodic  
Distribution Amount (if not the  
Calculation Agent): [●]
- (h) Screen Rate Determination: [Applicable/Not Applicable]
- (i) Reference Rate: [●]
- (ii) Profit Rate Determination Date(s): [●]
- (iii) Relevant Screen Page: [●]
- (In the case of EURIBOR, if not Reuters  
EURIBOR01 ensure it is a page which shows a  
composite rate or amend the fallback provisions  
appropriately or, in the case of EIBOR, if not  
Reuters AEIBOR, ensure it is a page which shows a  
composite rate.)*
- (iv) Relevant Time: [●]
- (v) Relevant Financial Centre: [●]
- (i) ISDA Determination: [Applicable/Not Applicable]
- (i) Floating Rate Option: [●]
- (ii) Designated Maturity: [●]
- (iii) Reset Date: [●]
- (iv) ISDA Definitions: [●]
- (j) Linear Interpolation: [Not Applicable/Applicable – the Profit Rate for  
the [long/short] [first/last] Periodic Distribution  
Period shall be calculated using Linear  
Interpolation (*specify for each Short or Long  
Periodic Distribution Period*)]
- (k) Margin(s): [+/-][●] per cent. per annum
- (l) Maximum Profit Rate: [●] per cent. per annum
- (m) Minimum Profit Rate: [●] per cent. per annum
- (n) Day Count Fraction: [Actual/Actual]  
[Actual/Actual – ISDA]  
[Actual/365 (Fixed)]  
[Actual/365 (Sterling)]  
[Actual/360]

[30/360]  
[360/360]  
[Bond Basis]  
[30E/360]  
[Eurobond Basis]  
[30E/360 (ISDA)]  
[Actual/Actual – ICMA]

**Provisions relating to dissolution**

- 17 Notice periods for Condition 8(b): Minimum period: [ ] days  
Maximum period: [ ] days
- 18 Optional Dissolution Right: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph.)*
- (a) Dissolution Distribution Amount: [As per Condition 1/[●]]
- (b) Optional Dissolution Date(s): [●]
- (c) Notice period: Minimum period: [ ] days  
Maximum period: [ ] days  
*(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and/or the Bank and the Principal Paying Agent or Delegate.)*
- (d) If dissolution in part:
- (i) Minimum Optional Dissolution Amount: [Not Applicable/[●]]
- (ii) Maximum Optional Dissolution Amount: [Not Applicable/[●]]
- 19 Certificateholder Put Right: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph.)*
- (a) Dissolution Distribution Amount: [As per Condition 1/[●]]
- (b) Certificateholder Put Right Date(s): [●]
- (c) Notice period: Minimum period: [ ] days  
Maximum period: [ ] days  
*(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 15 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and/or the Bank and the Principal Paying Agent or Delegate.)*

20 Dissolution Distribution Amount following redemption on the Scheduled Dissolution Date, on any Early Tax Dissolution Date or following the occurrence of a Dissolution Event: [As per Condition 1/[●]]

**General provisions applicable to the Certificates**

21 Form of Certificates: Registered Certificates: Global Certificate exchangeable for Certificates in definitive registered form in the limited circumstances specified in the Global Certificate.  
Reg S Compliance Category 2; TEFRA not applicable

22 Financial Centre(s) relating to payment (Condition 9(d)): [Not Applicable/[●]]

Signed on behalf of **Noor Sukuk Company Ltd.**

Signed on behalf of **Noor Bank PJSC**

By: .....  
*Duly authorised*

By: .....  
*Duly authorised*

## PART B – OTHER INFORMATION

### 1 Listing and Admission to Trading

- (a) Listing and Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Certificates to be admitted to trading on [specify relevant regulated market (*for example, NASDAQ Dubai*) and, if relevant, listing on an official list (*for example, the Official List maintained by the Dubai Financial Services Authority*)] with effect from [●].]
- [Application is expected to be made by the Issuer (or on its behalf) for the Certificates to be admitted to trading on [specify relevant regulated market (*for example, NASDAQ Dubai*) and, if relevant, listing on an official list (*for example, the Official List maintained by the Dubai Financial Services Authority*)] with effect from [●].]
- [Not Applicable.]
- (b) Estimate of total expenses related to admission to trading: [●]

### 2 Ratings

- Ratings: The Certificates to be issued [have been/are expected to be] rated:
- [Fitch: [●]]
- [[●]: [●]]
- [[●] is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]
- [[●] is established in the European Union and is registered under Regulation (EC) No. 1060/2009.]
- [[●] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009. However, the application for registration under Regulation (EC) No. 1060/2009 of [●], which is established in the European Union, disclosed the intention to endorse credit ratings of [●].]
- [[●] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009. The ratings [[have been]/[are expected to be]] endorsed by [●] in accordance with Regulation (EC) No. 1060/2009. [●] is established in the European Union and registered under Regulation (EC) No. 1060/2009.]
- [[●] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, but it is certified in accordance with such Regulation.]

3 **Interests of Natural and Legal Persons involved in the Issue**

[Save for any fees payable to the [Managers/Dealer], so far as each of the Trustee and the Obligor is aware, no person involved in the issue of the Certificates has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for the Issuer or the Bank or their affiliates in the ordinary course of business for which they may receive fees – *Amend as appropriate if there are other interests.*]

- 4 **Yield** (Fixed Rate Certificates only):  per cent. per annum
- The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

5 **Operational Information**

- (a) ISIN Code:
- (b) Common Code:
- (c) Any clearing system(s) other than Euroclear and Clearstream Luxembourg and the relevant identification number(s): [Not Applicable/give name(s), address(es) and number(s)]
- (d) Names and addresses of additional Paying Agent(s) (if any):
- (e) Stabilisation Manager(s):
- (f) Details of Transaction Account: Noor Sukuk Company Ltd. Transaction Account No:  with  for Series No.:

6 **Distribution**

- (a) Method of distribution: [Syndicated/Non-syndicated]
- (b) If syndicated, names of Managers: [Not Applicable/give names]
- (c) If non-syndicated, name of relevant Dealers: [Not applicable/give names]
- (d) U.S. Selling Restrictions: Regulation S, Category 2

## **USE OF PROCEEDS**

The Issue Price in respect of each Series of Certificates will be applied by the Trustee towards the purchase from the Bank of the Initial Wakala Portfolio. Such amounts will be used by the Bank for general corporate purposes.

## DESCRIPTION OF THE TRUSTEE

### **The Trustee**

Noor Sukuk Company Ltd. (the **Trustee**), an exempted company incorporated in the Cayman Islands with limited liability, was incorporated on 2 March 2015 under the Companies Law (as amended) of the Cayman Islands with company registration number 297119. The Trustee has been established as an exempt company for the sole purposes of issuing the Certificates and entering into the transactions contemplated by the Transaction Documents. The registered office of the Trustee is at the offices of MaplesFS Limited, Queensgate House, P.O. Box 1093, Grand Cayman, KY1-1102 Cayman Islands, telephone number +1 345 945 7099.

The authorised share capital of the Trustee is U.S.\$50,000 divided into 50,000 ordinary shares of U.S.\$1.00 each, 250 of which have been issued at the date of this Base Prospectus. All of the issued shares (the **Shares**) are fully-paid and are held by MaplesFS Limited as share trustee (in such capacity, the **Share Trustee**) under the terms of a declaration of trust (the **Share Declaration of Trust**) under which the Share Trustee holds the Shares in trust until the Termination Date (as defined in the Share Declaration of Trust) and may only dispose or otherwise deal with the Shares in accordance with the Share Declaration of Trust. Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has power to benefit one or more Qualified Charities (as defined in the Share Declaration of Trust). It is not anticipated that any distribution will be made whilst any Certificates are outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from, its holding of the Shares.

### **The Business of the Trustee**

The Trustee has no prior operating history or prior business and will not have any substantial assets or liabilities other than in connection with the Certificates.

So long as any of the Certificates remain outstanding, the Trustee shall not incur any other indebtedness in respect of financed, borrowed or raised money whatsoever or engage in any business or activity (other than acquiring and holding assets in connection with the Certificates, issuing the Certificates and entering into related agreements and transactions as provided for in the Transaction Documents), or, *inter alia*, redeem any of its shares or pay any dividends or make any other distribution to its shareholders, have any subsidiaries or employees, purchase, own, lease, or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in the Transaction Documents) or issue any shares (other than such Shares as were in issue on the date hereof or as contemplated in the Transaction Documents).

The Trustee has, and will have, no significant assets other than the sum of U.S.\$250 representing the issued and paid-up share capital, such fees (as agreed) payable to it in connection with the issue of the Certificates and the acquisition of assets in connection with the Certificates, the bank account into which such paid-up share capital and fees are deposited and the Trust Assets. Save in respect of fees generated in connection with the issue of the Certificates any related profits and proceeds of any deposits and investments made from such fees or from amounts representing the Trustee's issued and paid-up share capital, the Trustee does not expect to accumulate any surpluses.

The Certificates are the obligations of the Trustee alone and not the Share Trustee. Furthermore, they are not the obligations of, or guaranteed in any way by MaplesFS Limited or any other party.

### **Restrictions on the Offer of the Certificates**

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the Certificates unless or until the Trustee is listed on the Cayman Islands Stock Exchange.

### **Financial Statements**

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

**Directors of the Trustee**

The directors of the Trustee are as follows:

Name	Principal Occupation
Aaron Bennett.....	Vice-President, Maples Fund Services (Middle East) Limited
Cleveland Stewart .....	Senior Vice-President, MaplesFS Limited

The business address of Aaron Bennett is c/o Maples Fund Services (Middle East) Limited, Office 616, 6th Floor, Liberty House, Dubai International Financial Centre, P.O. Box 506734, Dubai, United Arab Emirates.

The business address of Cleveland Stewart is c/o MaplesFS Limited, Boundary Hall, Cricket Square, P.O. Box 1093, Grand Cayman, KY1-1102, Cayman Islands.

The Trustee’s Articles of Association provide that the board of directors of the Trustee will consist of at least one director.

There are no potential conflicts of interest between the duties of the directors of the Trustee to the Trustee and their private interests or other duties.

**The Administrator**

MaplesFS Limited also acts as the administrator of the Trustee (in such capacity, the **Trustee Administrator**). The office of the Trustee Administrator serves as the general business office of the Trustee. Through the office, and pursuant to the terms of a corporate services agreement entered into between the Trustee and the Trustee Administrator (the **Management Agreement**), the Trustee Administrator has agreed to perform in the Cayman Islands, the UAE and/or such other jurisdiction as may be agreed by the parties from time to time various management functions on behalf of the Trustee, and to provide certain clerical, administrative and other services to the Trustee until termination of the Management Agreement. The Trustee and the Trustee Administrator have also entered into a registered office agreement (the **“Registered Office Agreement”**) for the provision of registered office facilities to the Trustee. In consideration of the foregoing, the Trustee Administrator will receive various fees payable by the Trustee at rates agreed upon from time to time, plus expenses.

The terms of the Management Agreement and Registered Office Agreement provide that either the Trustee or the Trustee Administrator may terminate such agreements upon the occurrence of certain stated events, including any breach by the other party of its obligations under such agreements. In addition, the Management Agreement and the Registered Office Agreement provide that either party shall be entitled to terminate such agreements by giving at least three months’ notice in writing to the other party.

The Trustee Administrator will be subject to the overview of the Trustee’s Board of Directors.

The Trustee Administrator’s principal office is Boundary Hall, Cricket Square, P.O. Box 1093, Grand Cayman, KY1-1102, Cayman Islands.

The Directors of the Trustee are all employees or officers of the Trustee Administrator or an affiliate thereof. The Trustee has no employees and is not expected to have any employees in the future.

## SELECTED FINANCIAL INFORMATION

The following tables set out in summary form the balance sheet, income statement and statement of cash flows information relating to the Bank, as well as certain key financial ratios. Such information has been extracted from the Financial Statements or calculated based on information derived from the Financial Statements. The Financial Statements appear elsewhere in this Base Prospectus. The financial information presented below should be read in conjunction with “Presentation of financial and other information”, “Risk factors”, “Financial review” and the Financial Statements.

The 2012 financial information included in the tables below has been amended to reflect the impact of certain reclassifications, as explained in “Presentation of financial and other information – Presentation of Financial Information – Comparability of financial information”, and hence differs from the financial information corresponding to the year ended 31 December 2012, included, for comparative purposes, in the 2013 Financial Statements.

The 2013 financial information included in the tables below has been extracted from the 2014 Financial Statements to reflect the impact of certain reclassifications applied retrospectively in 2014, as explained in “Presentation of financial and other information – Presentation of Financial Information – Comparability of financial information”, and hence differs from the 2013 financial information included in the 2013 Financial Statements.

### INCOME STATEMENT

	For the year ended 31 December		
	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	2014
	(AED million)		
<b>Income</b>			
Income from Islamic financing and sukuk .....	592.1	678.7	895.2
Depositors’ share of profit.....	(293.0)	(270.9)	(238.4)
<b>Net income from Islamic financing</b> .....	<b>299.1</b>	<b>407.8</b>	<b>656.8</b>
Fee and other income, net of charges .....	205.1	211.6	296.6
Gain in investments in Islamic sukuk .....	42.4	7.3	31.0
Change in fair value of investment properties .....	5.3	5.9	28.3
<b>Total income</b> .....	<b>551.9</b>	<b>632.6</b>	<b>1,012.7</b>
<b>Expenses</b>			
General and administration expenses .....	(89.5)	(129.4)	(127.3)
Staff costs .....	(186.8)	(235.0)	(340.0)
Depreciation .....	(33.7)	(23.9)	(21.5)
<b>Total expenses</b> .....	<b>(310.0)</b>	<b>(388.3)</b>	<b>(488.8)</b>
<b>Operating profit before impairment</b> .....	<b>242.0</b>	<b>244.3</b>	<b>523.9</b>
Impairment charge on Islamic financing instruments .....	(166.4)	(43.9)	(122.6)
Reversal of impairment on land and buildings .....	—	55.0	276.8
<b>Profit for the year</b> .....	<b>75.6</b>	<b>255.4</b>	<b>678.1</b>

Notes:

- (1) The 2012 financial information included in the table above has been amended to reflect the impact of reclassifications, as explained in “Presentation of financial and other information—Presentation of financial information—Comparability of financial information”, and hence differs from the 2013 financial information included in the 2013 Financial Statements.
- (2) The 2013 financial information included in the table above has been extracted from the 2014 Financial Statements and hence differs from the 2013 financial information included in the 2013 Financial Statements. See “Presentation of financial and other information—Presentation of financial information—Comparability of financial information”.

## STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December		
	2012	2013	2014
	<i>(AED million)</i>		
Profit for the year .....	75.6	255.4	678.1
<b>Other comprehensive income</b>			
<i>Items that will not be classified to the income statement</i>			
Gain on revaluation of land and buildings .....	—	7.6	120.3
<i>Items that may subsequently be reclassified to the income statement</i>			
<i>Fair value reserve on available for sale Islamic sukuk</i>			
Net changes in fair value .....	28.8	(1.8)	2.3
Net realised gain transferred to income statement .....	(28.9)	(1.4)	(20.8)
<b>Total other comprehensive income / (loss) .....</b>	<b>(0.1)</b>	<b>4.4</b>	<b>101.9</b>
<b>Total comprehensive income for the year .....</b>	<b>75.5</b>	<b>259.8</b>	<b>779.9</b>

## STATEMENT OF FINANCIAL POSITION

	As at 31 December		
	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	2014
	(AED million)		
<b>ASSETS</b>			
Cash and balances with the UAE Central Bank.....	1,373.7	3,491.9	3,391.7
Due from banks.....	3,016.7	2,340.7	2,992.2
Investments in Islamic financing instruments.....	10,876.9	14,345.2	18,036.8
Investments in Islamic sukuk .....	1,716.3	1,811.3	2,881.3
Investment properties .....	83.9	213.8	1,266.6
Other assets.....	173.7	179.7	227.8
Property and equipment .....	713.4	768.9	216.6
<b>Total assets .....</b>	<b>17,954.6</b>	<b>23,151.5</b>	<b>29,013.0</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Customer deposits .....	14,052.2	18,663.6	23,851.0
Wakalah term deposits .....	770.9	770.9	544.2
Due to banks .....	625.4	853.2	542.2
Other liabilities .....	322.6	420.5	802.3
<b>Total liabilities .....</b>	<b>15,771.1</b>	<b>20,708.2</b>	<b>25,739.7</b>
<b>Equity</b>			
Share capital .....	3,157.9	3,307.9	3,307.9
Subscribed share capital .....	150.0	—	50.0
Statutory reserve.....	63.5	89.1	156.9
Revaluation surplus on land and buildings.....	—	7.6	127.9
Cumulative changes in fair value of available for sale Islamic sukuk .....	1.7	(1.5)	(20.0)
Accumulated losses.....	(1,189.7)	(959.8)	(349.5)
<b>Total equity .....</b>	<b>2,183.4</b>	<b>2,443.3</b>	<b>3,273.2</b>
<b>Total liabilities and equity .....</b>	<b>17,954.6</b>	<b>23,151.5</b>	<b>29,013.0</b>

### Notes:

- (1) The 2012 financial information included in the table above has been amended to reflect the impact of reclassifications, as explained in “*Presentation of financial and other information—Presentation of financial information—Comparability of financial information*”, and hence differs from the 2013 financial information included in the 2013 Financial Statements.
- (2) The 2013 financial information included in the table above has been extracted from the 2014 Financial Statements and hence differs from the 2013 financial information included in the 2013 Financial Statements. See “*Presentation of financial and other information—Presentation of financial information—Comparability of financial information*”.

## STATEMENT OF CASH FLOWS

	Year ended 31 December		
	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	2014
	<i>(AED million)</i>		
Net cash generated from / (used in) operating activities.....	2,469.7	(50.4)	1,037.5
Net cash from / (used in) investing activities .....	(448.5)	14.6	(1,535.1)
Net cash from / (used in) financing activities.....	150.0	—	(176.7)
Cash and cash equivalents at the start of the year .....	721.6	2,892.8	2,857.0
Cash and cash equivalents at the end of the year .....	2,892.8	2,857.0	2,182.7

### Notes:

- (1) The 2012 financial information included in the table above has been amended to reflect the impact of reclassifications, as explained in “*Presentation of financial and other information—Presentation of financial information—Comparability of financial information*”, and hence differs from the 2013 financial information included in the 2013 Financial Statements.
- (2) The 2013 financial information included in the table above has been extracted from the 2014 Financial Statements and differs from the 2013 financial information included in the 2013 Financial Statements. See “*Presentation of financial and other information—Presentation of financial information—Comparability of financial information*”.

## KEY FINANCIAL RATIOS

The following table sets out certain key ratios calculated based on information derived from the Financial Statements. These ratios are not calculated on the basis of IFRS and are not IFRS measures of financial performance.

	As at and for the year ended 31 December		
	2012	2013	2014
	<i>(% unless otherwise stated)</i>		
Net profit margin <sup>(1)</sup> .....	2.0	2.4	3.1
Financing/total assets <sup>(2)</sup> .....	60.6	62.0	62.2
Customer deposits/total funding <sup>(3)</sup> .....	91.0	92.0	95.6
Financing/customer deposits.....	77.4	76.9	75.6
Liquid assets ratio <sup>(4)</sup> .....	30.5	29.3	30.1
Cost to income ratio <sup>(5)</sup> .....	56.2	61.4	48.3
Return on equity <sup>(6)</sup> .....	3.6	11.0	23.7
Return on assets <sup>(7)</sup> .....	0.4	1.2	2.6
Impaired financings ratio <sup>(8)</sup> .....	24.9	9.5	7.3
Impairment provisions/impaired financings <sup>(9)</sup> .....	52.0	95.0	105.5
Capital adequacy ratio <sup>(10)</sup> .....	19.5	17.6	18.1
Tier I risk assets ratio <sup>(10)</sup> .....	14.1	13.9	14.6

### Notes:

- (1) Net income from Islamic financing divided by average profit earning assets (with the average calculated by dividing the sum of the Bank’s profit earning assets at the start and end of the year by two).
- (2) Financing for this purpose is Investments in Islamic financial instruments.
- (3) Total funding for this purpose is Customer deposits, Wakalah term deposits and Due to banks.
- (4) Total liquid assets (comprising the sum of Cash and balances with the UAE Central Bank, the net of Due from banks and Due to banks and Investment in Islamic sukuk) divided by total assets.
- (5) Total expenses divided by total operating income.
- (6) Net profit for the year divided by average shareholders’ equity (with the average calculated by dividing the sum of the Bank’s shareholders’ equity at the start and end of the year by two).
- (7) Net profit for the year divided by average total assets (with the average calculated by dividing the sum of the Bank’s total assets at the start and end of the year by two).
- (8) Impaired financings divided by gross financings.
- (9) Total impairment provisions divided by impaired financings.
- (10) Calculated in accordance with UAE Central Bank regulations.

## FINANCIAL REVIEW

*The following review of the Bank's financial condition and results of operations should be read in conjunction with the information set out in "Presentation of financial and other information", "Selected financial information" and the Financial Statements.*

*The review of the Bank's financial condition and results of operations is based upon the Financial Statements which have been prepared in accordance with IFRS. This discussion contains forward-looking statements that involve risks and uncertainties. The Bank's actual results could differ materially from those indicated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Base Prospectus, particularly under the headings "Cautionary statement regarding forward-looking statements" and "Risk factors".*

*The 2012 financial information included in this section has been amended to reflect the impact of reclassifications, as explained in "Presentation of financial and other information—Presentation of Financial Information—Comparability of financial information", and hence differs from the 2013 financial information included in the 2013 Financial Statements.*

*The 2013 financial information included in this section has been extracted from the 2014 Financial Statements to reflect the impact of certain reclassifications applied retrospectively in 2014. See "Presentation of financial and other information—Presentation of financial information—Comparability of financial information". The 2013 financial information included in this section therefore differs from the 2013 financial information included in the 2013 Financial Statements.*

## OVERVIEW

The Bank commenced operations on 7 January 2008. It provides a range of corporate and personal banking services, principally to customers in the UAE, and conducts treasury operation from the UAE.

The Bank's principal activities comprise the provision of financing to its customers, which generates profit income and fee income, and limited investment activities, which principally relate to its portfolio of investment sukuk and generate profit income and trading gains or losses. The Bank's principal source of funding is its customer deposits.

The Bank's focus is on exploiting growth opportunities in the Islamic banking industry through penetrating new markets and expanding its operations in existing markets, increasing its product range and increasing its cross-selling activities.

As at 31 December 2014, the Bank had total investments in Islamic financing instruments of AED 18.0 billion and total customer deposits of AED 23.9 billion. For the year ended 31 December 2014, the Bank recorded total net operating income of AED 1,012.7 million and profit for the year of AED 678.1 million. Reflecting its relatively short operating history, as at 31 December 2014, the Bank had accumulated losses of AED 349.5 million.

## PRINCIPAL FACTORS AFFECTING RESULTS OF OPERATIONS

The following is a discussion of the principal factors that have affected, or are expected to affect, the Bank's results of operations.

### **Economic conditions**

The Bank's income and results of operations are affected by economic and market conditions in the UAE. Based on IMF data following the conclusion of its Article IV consultation with the UAE in July 2014, the UAE's real GDP has grown at levels of 4.7 per cent. in 2012 and 5.2 per cent. in 2013 and is projected to have grown at a level of 4.7 per cent. in 2014. The UAE's real GDP is projected by the IMF to remain at above 4 per cent. in the coming years, principally supported by growth in the non-hydrocarbon economy. According to the IMF, these economic conditions have resulted in strong deposit growth which has boosted liquidity in the banking system and growth in lending to the private sector, particularly since 2013 when year-over-year growth was 8.3 per cent. The IMF believes that UAE banks remain amply capitalised, and that non performing loans have begun declining from their post-crisis peak, although they remain high, especially among Dubai banks. These conditions have supported the Bank's growth in 2012, 2013 and 2014.

However, some of the principal risks identified by the IMF in its July 2014 staff report were:

- the strengthening real estate cycle, particularly in the Dubai residential market, which could attract increased speculative demand that could ultimately result in another potentially disruptive correction. This risk could be exacerbated by an acceleration in Dubai megaprojects, which could also weaken Dubai's still substantially indebted GREs. In addition, recently relaxed rent controls and rising real estate prices could result in increased inflation; and
- a sustained decline in oil prices, which would be likely to reduce export earnings and fiscal revenues and a large and prolonged fall in oil prices would be likely to reverse the accumulation of savings and ultimately result in lower fiscal spending.

International oil prices have fallen significantly since mid-2014 and this fall, particularly if sustained through 2015, is likely to have an adverse effect on the UAE's economy and its banking sector generally. See "*Risk factors—Risks relating to the Bank and its ability to fulfil its obligations under the Transaction Documents—The UAE's economy is highly dependent upon its oil revenue*".

### **Factors affecting net income from Islamic financing**

The Bank's net income from Islamic financing is a major contributor to its total net operating income, comprising 64.9 per cent. of total net operating income in 2014, 64.5 per cent. in 2013 and 54.2 per cent. in 2012. The Bank's net income from Islamic financing is the difference between the income earned by it on Islamic financing and investment sukuk and the profit shares paid by it to its depositors.

The Bank's net income from Islamic financing is affected by a number of factors. It is primarily determined by the volume of income-earning assets relative to profit-bearing liabilities, as well as the differential between rates earned on income-earning assets and rates paid on profit-bearing liabilities. The Bank's income-earning assets principally comprise its customer financing portfolio and the fixed income sukuk held by it. The Bank's profit-bearing liabilities principally comprise its customer deposits.

The Bank's average earning assets (determined on the basis of balances of Due From Banks, Investments in Islamic Financing Instruments and Investments in Islamic Sukuk at the start and end of each year) were AED 15,267.2 million in 2012, AED 17,053.5 million in 2013 and AED 21,203.7 million in 2014, corresponding to growth rates of 11.7 per cent in 2013 and 24.3 per cent. in 2014.

The Bank's average balances of Islamic financing instruments and sukuk, which carry generally higher profit rates than its other earning assets and generally higher profit rates than its funding, were AED 12,563.9 million in 2012, AED 14,374.8 million in 2013 and AED 18,537.3 million in 2014, corresponding to growth rates of 14.4 per cent. in 2013 and 29.0 per cent. in 2014.

The Bank's average funding (determined on the basis of balances of customer deposits, *wakalah* term deposits and Due to Banks at the start and end of each year) was AED 14,964.4 million in 2012, AED 17,868.1 million in 2013 and AED 22,612.5 million in 2014, corresponding to growth rates of 19.4 per cent in 2013 and 26.6 per cent. in 2014.

During 2014, the Bank earned an average yield (calculated as Income from Islamic Financing and Sukuk/average earning assets) of 4.2 per cent. on its earning assets (compared to 4.0 per cent. during 2013 and 3.9 per cent. during 2012) while maintaining an average cost of funds (calculated as depositors' share of profit/average funding) of 1.1 per cent. (compared to 1.5 per cent. during 2013 and 2.0 per cent. during 2012) which resulted in an increase in the Bank's net income from Islamic financing and sukuk, which grew by 36.3 per cent. in 2013 and by 61.1 per cent. in 2014. In addition, growth in the Bank's financing portfolio also contributed to growth in its net fee and other income, which grew by 3.2 per cent. in 2013 and by 40.1 per cent. in 2014.

Together, the Bank's net income from Islamic financing and sukuk and its net fee and other income (including gain on investment in Islamic sukuk) constituted 97.2 per cent. of its total income in 2014, 99.1 per cent. in 2013 and 99.0 per cent. in 2012.

### **Impairment charges**

The Bank reviews its financial assets on a regular basis for indications of impairment, whether at an individual asset level (in the case of significant financial assets) or collectively (for financial assets that are not individually significant or assessed as impaired). The Bank's impairment policy on financial assets is described in note 3.8 to the 2014 Financial Statements.

The Bank was officially launched in January 2008, shortly before the onset of the global financial crisis. By the end of 2011, the Bank had recorded AED 1.8 billion in impairment charges in relation to its financing portfolio, principally in relation to the real estate, contracting and trade sectors.

The Bank continues to record net impairment charges related to Islamic financing and these amounted to AED 166.4 million in 2012, AED 43.9 million in 2013 and AED 122.6 million in 2014, with impairment reversals amounting to AED 61.1 million in 2012, AED 220.0 million in 2013 and AED 99.1 million in 2014. The Bank seeks to prudently manage its impaired portfolio. The Bank's cash recoveries on its impaired portfolio amounted to AED 630.1 million in 2012, AED 208.1 million in 2013 and AED 62.9 million in 2014.

As discussed under “-*Economic conditions*” above, any significant deterioration in economic conditions could negatively affect the ability of the Bank's customers, particularly those in cyclical industry sectors (such as financial services and real estate) which are often the most significantly affected by the economic downturn, and could result in the Bank recording specific and/or increased collective impairment charges in respect of the affected customers, their industries or specific financings.

## **RECENT DEVELOPMENTS**

Following approval by the shareholders in annual general meeting, the Bank paid a dividend of 10 per cent., amounting to AED 335.8 million, on 26 March 2015.

## **SIGNIFICANT ACCOUNTING POLICIES**

The Financial Statements have been prepared in accordance with IFRS. For a discussion of the accounting policies applied by the Bank generally, see note 3 to the 2014 Financial Statements.

## **CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In preparing the Bank's financial statements, management is required to make certain estimates, judgments and assumptions. These affect the reported amounts of the Bank's assets and liabilities, including disclosure of contingent assets and liabilities, at the date of the financial statements as well as the reported amounts of its revenue and expenses during the periods presented. Management bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an ongoing basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgment. Actual outcomes may differ from any estimates or assumptions made and such differences may be material to the Bank's financial statements. For a discussion of the most significant accounting estimates, judgments and assumptions made in the preparation of the Bank's financial statements, see note 2.4 to the 2014 Financial Statements, which identifies:

- the determination of impairment losses on investments in Islamic financing instruments;
- the classification of investments in Islamic sukuk as held to maturity;
- the determination of the fair value of investment properties and land and buildings; and
- the determination of the estimated useful lives and residual value of property and equipment

as the significant areas in which there is estimation uncertainty and where critical judgment is required when applying the accounting policies that have the most significant effect on the amounts recognised in the 2014 Financial Statements.

## **RESULTS OF OPERATIONS**

### **Comparison of 2013 and 2014**

#### ***Net income from Islamic financing***

The Bank's net income from Islamic financing reflects the difference between the amount of profit income that it earns from Islamic financing provided by it to customers and from its sukuk investment portfolio and the amount of profit share that it pays to its depositors.

### Income from Islamic financing and sukuk

The table below shows the breakdown of the Bank's income from Islamic financing (broken down by type of financing provided) and the Bank's profit income from its sukuk investment portfolio in each of 2013 and 2014.

	2013		2014	
	(AED million)	(% of total)	(AED million)	(% of total)
Wakalah.....	19.5	2.9	23.0	2.6
Ijarah .....	120.5	17.7	153.5	17.2
Murabahah <sup>(1)</sup> .....	457.3	67.4	626.2	69.9
	<b>597.3</b>	<b>88.0</b>	<b>802.7</b>	<b>89.7</b>
Profit income on sukuk .....	81.4	12.0	92.5	10.3
<b>Total income from Islamic financing and sukuk .....</b>	<b>678.7</b>	<b>100.0</b>	<b>895.2</b>	<b>100.0</b>

Note:

(1) In 2014, the Bank reclassified 2013 comparative amounts of tawarruq and certain wakalah contracts as murabahah to appropriately conform to the presentation in the 2014 Financial Statements.

The Bank's total income from Islamic financing and sukuk in 2014 amounted to AED 895.2 million compared to AED 678.7 million in 2013, an increase of AED 216.5 million, or 31.9 per cent. This increase principally reflected growth in the Bank's corporate and personal banking financing portfolio in line with the Bank's strategy as well as growth in its sukuk portfolio. The growth in total income from Islamic financing and sukuk was also, to some extent, attributed to growth in better yielding assets, especially personal banking assets.

The Bank principally uses:

- *wakalah* financings mainly for the purpose of placements with financial institutions;
- *ijarah* transactions for residential mortgage, commercial real estate and corporate financings; and
- *murabahah* transactions for Islamic credit cards, vehicle and corporate financing.

See note 3.14 to the 2014 Financial Statements for a brief description of each of these transaction types.

### Depositors' share of profit

The table below shows the breakdown of profit shares paid by the Bank to its depositors (broken down by deposit type) in each of 2013 and 2014.

	2013		2014	
	(AED million)	(% of total)	(AED million)	(% of total)
Wakalah term deposits.....	256.8	94.8	220.0	92.3
Mudarabah savings deposits .....	9.8	3.6	15.5	6.5
Mudarabah term deposits .....	4.3	1.6	2.9	1.2
<b>Total depositors' share of profit .....</b>	<b>270.9</b>	<b>100.0</b>	<b>238.4</b>	<b>100.0</b>

The total depositors' share of profit in 2014 amounted to AED 238.4 million compared to AED 270.9 million in 2013, a decrease in 2014 of AED 32.5 million, or 12.0 per cent. This decrease principally reflected a decrease in the Bank's profit paying wakalah term deposits which was offset by growth in current and savings accounts which bear a lower funding cost than term deposits.

Reflecting the above factors, the Bank's net income from Islamic financing increased by AED 249.0 million, or 61.1 per cent., in 2014 from AED 407.8 million in 2013 to AED 656.8 million.

### *Other operating income*

In addition to its net income from Islamic financing, the Bank also derives net fee income as well as income from realised and unrealised gains made on its held for trading sukuk investments and realised gains made on its available for sale sukuk investments and changes in the fair value of its investment properties.

The table below shows the breakdown of the Bank's other operating income in each of 2013 and 2014.

	2013		2014	
	(AED million)	(% of total)	(AED million)	(% of total)
Fee and other income, net of charges .....	211.6	94.1	296.6	83.3
Gain on investments in Islamic sukuk .....	7.3	3.3	31.0	8.7
Change in fair value of investment properties .....	5.9	2.6	28.4	8.0
<b>Total other operating income.....</b>	<b>224.8</b>	<b>100.0</b>	<b>356.0</b>	<b>100.0</b>

The Bank's total other operating income increased by AED 131.2 million, or 58.4 per cent., in 2014, from AED 224.8 million in 2013 to AED 356.0 million in 2014. This reflected increases in each of the categories of other operating income, as described below.

The Bank's total fee and other income, net of charges increased by AED 85.0 million, or 40.1 per cent., in 2014, from AED 211.6 million in 2013 to AED 296.6 million in 2014. This was primarily due to an AED 30.6 million, or 90.6 per cent., increase in transactional and deposit related fees resulting from initiatives undertaken by the Corporate Bank and Noor Wealth, which also provided comparatively greater opportunities for cross selling across the Bank's other business groups and units. Noor Trade also generated an increase in trade-related fees of AED 18.8 million, or 56.1 per cent., in 2014 as its business developed. The Bank's net foreign exchange income increased by AED 16.6 million, or 45 per cent., in 2014, principally as a result of increased cross-selling.

In 2014, the Bank's gain on investments in Islamic sukuk amounted to AED 31.0 million compared to AED 7.3 million in 2013. The increased gain in 2014 principally resulted from general improvement in fixed income market conditions compared to the market conditions in 2013, supplemented by an increase in sales activity to Noor Wealth customers which therefore generated a greater volume of gains on the sales made.

In 2014, the change in the fair value of the Bank's investment properties amounted to AED 28.4 million compared to AED 5.9 million in 2013. The higher change in 2014 principally reflected improvements in the UAE real estate market.

### *Operating expenses*

The Bank's operating expenses comprise its general and administration expenses, its staff costs and its depreciation charge. The table below shows the breakdown of the Bank's operating expenses in each of 2013 and 2014.

	2013 <sup>(1)</sup>		2014	
	(AED million)	(% of total)	(AED million)	(% of total)
Staff costs .....	235.0	60.5	340.0	69.6
General and administration expenses.....	129.4	33.3	127.3	26.0
Depreciation .....	23.9	6.2	21.5	4.4
<b>Total operating expenses.....</b>	<b>388.3</b>	<b>100.0</b>	<b>488.8</b>	<b>100.0</b>

Note:

(1) The 2013 financial information included in the table above has been extracted from the 2014 Financial Statements to reflect the impact of certain reclassifications applied retrospectively in 2014. See "Presentation of financial and other information—Presentation of financial information—Comparability of financial information". The 2013 financial information included in the table above therefore differs from the 2013 financial information included in the 2013 Financial Statements.

The Bank's operating expenses increased by AED 100.5 million, or 25.9 per cent., in 2014, from AED 388.3 million in 2013 to AED 488.8 million. This increase reflected increased staff costs, offset by lower general and administration expenses and depreciation.

The Bank's staff costs increased by AED 105.0 million, or 44.7 per cent., in 2014, from AED 235.0 million in 2013 to AED 340.0 million. This increase principally reflected a 33.7 per cent. increase in salaries and allowances, which was mainly due to increasing staff numbers (with full time staff increasing from 404 at 31 December 2013 to 551 at 31 December 2014). In 2014, the Bank also outsourced certain back office operating activities to a service provider to achieve efficiency and cost savings which resulted in a cost for the year of AED 25.9 million.

The Bank's general and administration expenses fell by AED 2.1 million, or 1.6 per cent., in 2014, from AED 129.4 million in 2013 to AED 127.3 million. This decrease principally reflected an AED 22.7 million fall in marketing and advertisement expenses which was due to a re-branding exercise undertaken in 2013 and resulted in higher marketing and advertisement expenses in that year. The principal factor offsetting this fall was an increase of AED 14.4 million in facilities management expenses due to growth in the Bank's operations over the two years.

#### ***Net operating profit before impairment charges***

Reflecting all of the factors described above, the Bank's net operating profit before impairment charges on investment in Islamic financing instruments increased by AED 279.6 million, or 114.4 per cent. from 2013.

#### ***Impairment charges on investment in Islamic financing instruments***

The Bank's impairment charge on Islamic financing instruments was AED 122.6 million in 2014 and AED 43.9 million in 2013, with the lower impairment charge in 2013 reflecting higher cash recoveries in that year. See "*Principal factors affecting results of operations—Impairment charges*" above.

#### ***Reversal of impairment loss on land and buildings***

In addition, in 2013 and 2014, the Bank reversed impairment losses of AED 276.8 million and AED 55.0 million which it had previously recorded in respect of certain land and buildings following an improvement in the UAE real estate market.

#### ***Profit for the year***

Reflecting the changes in impairment charges described above, the Bank recorded a profit of AED 678.1 million in 2014 compared to AED 255.4 million in 2013.

#### ***Total comprehensive income for the year***

The table below show the composition of Bank's total comprehensive income for each of 2013 and 2014.

	<b>2013</b>	<b>2014</b>
	<i>(AED million)</i>	<i>(AED million)</i>
Profit for the year .....	255.4	678.1
<b>Other comprehensive income</b>		
<b><i>Items that will not be reclassified to the income statement</i></b>		
Gain on revaluation of land and buildings .....	7.6	120.3
<b><i>Items that may be subsequently reclassified to the income statement</i></b>		
<i>Fair value reserve on available for sale Islamic sukuk</i>		
Net changes in fair value .....	(1.8)	2.3
Net realised gain transferred to income statement .....	(1.4)	(20.8)
<b>Total other comprehensive income .....</b>	<b>4.4</b>	<b>101.8</b>
<b>Total comprehensive income for the year .....</b>	<b>259.8</b>	<b>779.9</b>

The Bank's comprehensive income principally comprises its profit for the year and, in 2014, an AED 120.3 million revaluation gain on certain land and buildings.

## Comparison of 2012 and 2013

### Net income from Islamic financing

#### Income from Islamic financing and sukuk

The table below shows the breakdown of the Bank's income from Islamic financing (broken down by type of financing provided) and the Bank's profit income from its sukuk investment portfolio in each of 2012 and 2013.

	2012 <sup>(1)</sup>		2013 <sup>(2)</sup>	
	(AED million)	(% of total)	(AED million)	(% of total)
Wakalah.....	12.8	2.2	19.5	2.9
Ijarah .....	89.4	15.1	120.5	17.7
Murabahah .....	428.9	72.4	457.3	67.4
	<b>531.1</b>	<b>89.7</b>	<b>597.3</b>	<b>88.0</b>
Profit income on sukuk .....	61.1	10.3	81.4	12.0
<b>Total income from Islamic financing and sukuk .....</b>	<b>592.2</b>	<b>100.0</b>	<b>678.7</b>	<b>100.0</b>

Notes:

- (1) The 2012 financial information included in the table above has been amended to reflect the impact of reclassifications, as explained in "Presentation of financial and other information—Presentation of financial information—Comparability of financial information", and hence differs from the 2013 financial information included in the 2013 Financial Statements.
- (2) The 2013 financial information included in the table above has been extracted from the 2014 Financial Statements to reflect the impact of certain reclassifications applied retrospectively in 2014. See "Presentation of financial and other information—Presentation of financial information—Comparability of financial information". The 2013 financial information included in the table above therefore differs from the 2013 financial information included in the 2013 Financial Statements.

The Bank's total income from Islamic financing and sukuk in 2013 amounted to AED 678.7 million compared to AED 592.2 million in 2012, an increase of AED 86.5 million, or 14.6 per cent. This increase principally reflected growth in the Bank's financing and sukuk portfolios in line with the Bank's strategy.

#### Depositors' share of profit

The table below shows the breakdown of profit shares paid by the Bank to its depositors (broken down by deposit type) in each of 2012 and 2013.

	2012		2013	
	(AED million)	(% of total)	(AED million)	(% of total)
Wakalah term deposits.....	278.5	95.0	256.8	94.8
Mudarahah savings deposits .....	6.8	2.3	4.3	1.6
Mudarahah term deposits .....	6.6	2.3	9.8	3.6
Murabahah deposits.....	1.1	0.4	—	—
<b>Total depositors' share of profit .....</b>	<b>293.0</b>	<b>100.0</b>	<b>270.9</b>	<b>100.0</b>

The total depositors' share of profit in 2013 amounted to AED 270.9 million compared to AED 293.0 million in 2012, a decrease of AED 22.1 million, or 7.5 per cent. This decrease principally reflected lower profit rates for term deposits in 2013 compared to 2012.

Reflecting the above factors, the Bank's net income from Islamic financing increased by AED 108.6 million, or 36.3 per cent., in 2013 from AED 299.1 million in 2012 to AED 407.8 million.

### Other operating income

The table below shows the breakdown of the Bank's other operating income in each of 2012 and 2013.

	2012		2013	
	(AED million)	(% of total)	(AED million)	(% of total)
Fee and other income, net of charges .....	205.1	81.1	211.6	94.1
Gain on investments in Islamic sukuk .....	42.4	16.8	7.3	3.3
Change in fair value of investment properties .....	5.3	2.1	5.9	2.6
<b>Total other income .....</b>	<b>252.8</b>	<b>100.0</b>	<b>224.8</b>	<b>100.0</b>

The Bank's total other income decreased by AED 28.0 million, or 11.1 per cent., in 2013, from AED 252.8 million in 2012 to AED 224.8 million in 2013. This decrease principally reflected lower gains on investments in Islamic sukuk in 2013 compared to 2012.

The Bank's total net fee and other income increased by AED 6.5 million, or 3.2 per cent., in 2013, from AED 205.1 million in 2012 to AED 211.6 million in 2013. Although the total amount of the Bank's net fee and other income remained relatively flat, facility arrangement and processing fees increased by AED 36.0 million, or 42.2 per cent. in 2013 whilst foreign exchange income fell by AED 36.8 million, or 49.8 per cent. The increase in facility arrangement and processing fees principally reflected an increased volume of arranged facilities over the two years. While the core foreign exchange activity grew over the 2 years in line with the general growth of the Bank's balance sheet and increased cross selling, the 2012 income from foreign exchange includes a one off customer transaction that was not replicated in 2013.

In 2013, the Bank's gain on investments in Islamic sukuk amounted to AED 7.3 million compared to AED 42.4 million in 2012. The lower gains realised in 2013 principally resulted from a general deterioration in market conditions that adversely affected sukuk pricing.

### Operating expenses

The table below shows the breakdown of the Bank's operating expenses in each of 2012 and 2013.

	2012 <sup>(1)</sup>		2013 <sup>(2)</sup>	
	(AED million)	(% of total)	(AED million)	(% of total)
Staff costs .....	186.8	60.3	235.0	60.5
General and administration expenses .....	89.5	28.8	129.4	33.3
Depreciation .....	33.7	10.9	23.9	6.2
<b>Total operating expenses .....</b>	<b>310.0</b>	<b>100.0</b>	<b>388.3</b>	<b>100.0</b>

Notes:

- (1) The 2012 financial information included in the table above has been amended to reflect the impact of reclassifications, as explained in "Presentation of financial and other information—Presentation of financial information—Comparability of financial information", and hence differs from the 2013 financial information included in the 2013 Financial Statements.
- (2) The 2013 financial information included in the table above has been extracted from the 2014 Financial Statements to reflect the impact of certain reclassifications applied retrospectively in 2014. See "Presentation of financial and other information—Presentation of financial information—Comparability of financial information". The 2013 financial information included in the table above therefore differs from the 2013 financial information included in the 2013 Financial Statements.

The Bank's total operating expenses increased by AED 78.3 million, or 25.3 per cent., in 2013, from AED 310.0 million in 2012 to AED 388.3 million. This increase principally reflected increase in staff costs and general and administration expenses, offset by lower depreciation.

The Bank's staff costs increased by AED 48.2 million, or 25.8 per cent., in 2013, from AED 186.8 million in 2012 to AED 235.0 million. This increase principally reflected an increase in staff numbers (with full time staff increasing from 351 at 31 December 2012 to 404 at 31 December 2013).

The Bank's general and administration expenses increased by AED 39.9 million, or 44.6 per cent., in 2013, from AED 89.5 million in 2012 to AED 129.4 million. This increase principally reflected an AED 26.9 million increase in marketing and advertisement expenses in 2013 which was driven by a rebranding exercise during the year as well as an increase of AED 13.4 million in IT-related expenses, reflecting growth in the Bank's operations over the two years.

Notwithstanding growth in the Bank's operations over the two years, the Bank's depreciation charge fell by AED 9.8 million, or 29.1 per cent., in 2013, from AED 33.7 million in 2012 to AED 23.9 million. This fall principally reflected a significantly higher depreciation charge in respect of computer equipment in 2012 than in 2013 as a result of the fact that a significant amount of that equipment was fully depreciated in 2012 and 2013.

***Net operating profit before impairment charges***

Reflecting all of the factors described above, the Bank's net operating profit before impairment charges on investment in Islamic financing instruments remained substantially flat in 2013, increasing by AED 2.3 million, or 1.0 per cent. from 2012.

***Impairment charges on investment in Islamic financing instruments***

The Bank's impairment charge on Islamic financing instruments was AED 166.4 million in 2012 and AED 43.9 million in 2013. See "*Principal factors affecting results of operations—Impairment charges*" above

***Reversal of impairment loss on land and buildings***

In addition, in 2013, the Bank reversed an impairment loss of AED 55.0 million which it had previously recorded in respect of certain land and buildings following an improvement in the UAE real estate market.

***Profit for the year***

Reflecting the changes in impairment charges described above, the Bank recorded a profit of AED 255.4 million in 2013 compared to AED 75.6 million in 2012.

***Total comprehensive income for the year***

The table below show the composition of Bank's total comprehensive income for each of 2012 and 2013.

	<b>2012</b>	<b>2013</b>
	<i>(AED million)</i>	<i>(AED million)</i>
Profit for the year .....	75.6	255.4
<b>Other comprehensive income</b>		
<b><i>Items that will not be reclassified to the income statement</i></b>		
Gain on revaluation of land and buildings .....	—	7.6
<b><i>Items that may be subsequently reclassified to the income statement</i></b>		
<i>Fair value reserve on available for sale Islamic sukuk</i>		
Net changes in fair value .....	28.8	(1.8)
Net realised gain transferred to income statement .....	(28.9)	(1.4)
<b>Total other comprehensive income/(loss) .....</b>	<b>(0.1)</b>	<b>4.4</b>
<b>Total comprehensive income for the year .....</b>	<b>75.5</b>	<b>259.8</b>

## FUNDING AND LIQUIDITY

### Funding

The table below shows the Bank's sources of funding as at 31 December in each of 2012, 2013 and 2014.

	As at 31 December		
	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	2014
	(AED million)		
Customers' deposits .....	14,052.2	18,663.6	23,851.0
Wakalah term deposits .....	770.9	770.9	544.2
Due to banks .....	625.4	853.2	542.2
Total equity .....	2,183.4	2,443.3	3,273.2
<b>Total funding</b> .....	<b>17,631.9</b>	<b>22,731.0</b>	<b>28,210.6</b>

Notes:

- (1) The 2012 financial information included in the table above has been amended to reflect the impact of reclassifications, as explained in "Presentation of financial and other information—Presentation of financial information—Comparability of financial information", and hence differs from the 2013 financial information included in the 2013 Financial Statements.
- (2) The 2013 financial information included in the table above has been extracted from the 2014 Financial Statements to reflect the impact of certain reclassifications applied retrospectively in 2014. See "Presentation of financial and other information—Presentation of financial information—Comparability of financial information". The 2013 financial information included in the table above therefore differs from the 2013 financial information included in the 2013 Financial Statements.

The Bank's principal source of funding is deposits, which accounted for 86.5 per cent. of its funding at 31 December 2014 compared to 85.5 per cent. at 31 December 2013 and 84.1 per cent. at 31 December 2012. The table below shows the Bank's deposits by type of deposit as at 31 December in each of 2012, 2013 and 2014.

	As at 31 December		
	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	2014
	(AED million)		
<b>Customer deposits</b>			
Wakalah – term .....	11,064.0 <sup>(3)</sup>	12,438.7 <sup>(3)</sup>	11,515.8
Mudarabah – savings .....	1,039.4	2,923.7	6,947.9
Mudarabah – term.....	290.1	304.8	212.4
Margin accounts .....	19.5	35.5	212.5
Qard-E-Hassan .....	1,639.2	2,960.9	4,962.4
<b>Total customer deposits</b> .....	<b>14,052.2</b>	<b>18,663.6</b>	<b>23,851.0</b>
Wakalah term deposits <sup>(3)</sup> .....	770.9	770.9	544.2
<b>Total deposits</b> .....	<b>14,823.1</b>	<b>19,434.5</b>	<b>24,395.2</b>

Notes:

- (1) The 2012 financial information included in the table above has been amended to reflect the impact of reclassifications, as explained in "Presentation of financial and other information—Presentation of financial information—Comparability of financial information", and hence differs from the 2013 financial information included in the 2013 Financial Statements.
- (2) The 2013 financial information included in the table above has been extracted from the 2014 Financial Statements to reflect the impact of certain reclassifications applied retrospectively in 2014. See "Presentation of financial and other information—Presentation of financial information—Comparability of financial information". The 2013 financial information included in the table above therefore differs from the 2013 financial information included in the 2013 Financial Statements.
- (3) Wakalah – term excludes AED 771 million received from the UAE Ministry of Finance in 2008 and, in 2009, converted in Tier II capital with the agreement of the Ministry of Finance. This deposit appears under wakalah term deposits in 2012 and 2013 and was repaid by the Bank in 2014. Wakalah term deposits in 2014 comprise Tier II deposits obtained by the Bank from regional financial institutions (including related parties) in the UAE. See note 12 to the 2014 Financial Statements.

The Bank's principal deposit type is the wakalah – term, which is profit bearing. As at 31 December 2014, Wakalah deposits constituted 48.3 per cent. of the Bank's total customer deposits, compared to 66.6 per cent. at 31 December 2013 and 78.7 per cent. at 31 December 2012.

The Bank's Mudarabah deposits are also profit bearing, whilst its margin accounts and Qard-E-Hassan deposits do not pay any profit.

The table below shows a maturity profile (based on remaining contractual maturities) for the Bank's total deposits on an undiscounted basis, relating to both principal and profit payments, as at 31 December in each of 2012, 2013 and 2014.

	<u>Carrying amount</u>	<u>Up to 3 months</u>	<u>3 months to 1 year</u>	<u>1 year to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
	<i>(AED million)</i>					
2012 .....	14,823.1	7,531.8	6,224.0	1,302.6	—	15,058.4
2013 .....	19,434.5	10,585.0	7,963.2	1,137.0	—	19,685.2
2014 .....	24,395.1	13,958.2	8,049.1	2,142.6	696.3	24,846.1

The majority of the Bank's deposits are short-term in nature although, in accordance with normal banking practice in the UAE, a significant proportion of these deposits tend to have much longer behavioural maturities as they are regularly rolled over. See "*Risk factors—Risks relating to the Bank and its ability to fulfil its obligations under the Transaction Documents—The Bank is subject to liquidity risk which could materially adversely affect its results of operations and, in an extreme case, could threaten its solvency*".

### Liquidity

The Bank's principal sources of liquidity are the cash flows generated from its operating activities, its cash balances and its sukuk investment portfolio. The Bank is seeking to diversify its funding sources and the establishment of the Programme and issues under the Programme are an important step in this strategy and are also intended to help the Bank supplement its depositor base with longer term funding.

### Cash flow

The table below summarises the Bank's cash flow from operating activities, investing activities and financing activities for each of 2012, 2013 and 2014.

	<u>2012<sup>(1)</sup></u>	<u>2013<sup>(2)</sup></u>	<u>2014</u>
	<i>(AED million)</i>		
Net cash generated from / (used in) operating activities.....	2,469.7	(50.4)	1,037.5
Net cash from / (used in) investing activities .....	(448.5)	14.6	(1,535.1)
Net cash from / (used in) financing activities.....	150	—	(176.7)
Cash and cash equivalents at the start of the year .....	721.6	2,892.8	2,857.0
Cash and cash equivalents at the end of the year.....	2,892.8	2,857.0	2,182.7

Notes:

- (1) The 2012 financial information included in the table above has been amended to reflect the impact of reclassifications, as explained in See "*Presentation of financial and other information—Presentation of financial information—Comparability of financial information*", and hence differs from the 2013 financial information included in the 2013 Financial Statements.
- (2) The 2013 financial information included in the table above has been extracted from the 2014 Financial Statements to reflect the impact of certain reclassifications applied retrospectively in 2014. See "*Presentation of financial and other information—Presentation of financial information—Comparability of financial information*". The 2013 financial information included in the table above therefore differs from the 2013 financial information included in the 2013 Financial Statements.

The Bank's net cash generated from operating activities in 2014 was AED 1,037.5 million compared to net cash used in operating activities of AED 50.4 million in 2013 and net cash generated from operating activities of AED 2,469.7 million in 2012. The Bank's cash flows from operating activities before changes in operating assets and liabilities were AED 488.9 million in 2014, AED 256.9 million in 2013 and AED 228.2 million in 2012. These cash flows principally represent the Bank's profit for the year adjusted to reflect impairment losses and reversals.

The Bank's net cash from or used in investing activities principally reflects its purchases and sales of investment sukuk as well as, in 2013 and 2014, the net outcome from purchases and redemptions of held to maturity sukuk and, in 2014, investments in certificates of deposit. In each of the three years under review, the Bank has purchased more sukuk than it has sold as it seeks to increase the size of its sukuk portfolio.

The Bank's net cash used in financing activities in 2014 was AED 176.7 million and principally reflected the repayment of the Ministry of Finance Tier II wakalah deposit net of new Tier II wakalah deposits received during the year. In addition, AED 50 million in new share capital was subscribed in 2014. The Bank did not generate or spend any cash on financing activities in 2013 and, in 2012, its net cash from financing activities represented the subscription proceeds of shares issued to its parent for the purposes of an employee share scheme in favour of the Bank's key management.

#### **Cash balances**

The Bank has significant cash balances, the majority of which are held in various forms with the UAE Central Bank, which it is able to use as an additional source of liquidity. The table below shows the Bank's cash and bank balances as at 31 December in each of 2012, 2013 and 2014.

	<b>As at 31 December</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<i>(AED million)</i>		
Cash in hand.....	100.5	82.2	124.5
Current account with the UAE Central Bank .....	94.7	606.7	635.9
Certificates of deposit with the UAE Central Bank.....	705.0	2,000.0	1,050.0
Statutory deposit with the UAE Central Bank.....	473.5	803.0	1,581.3
<b>Total cash and bank balances.....</b>	<b>1,373.7</b>	<b>3,491.9</b>	<b>3,391.7</b>

The statutory deposit with the UAE Central Bank is not available to finance the day to day operations of the Bank, except in a crisis situation. All items in the table above, except the certificates of deposit, are non-profit paying. The certificates of deposit have carried profit rates ranging from 0 per cent. to 0.39 per cent. in each year under review.

#### **Sukuk investment portfolio**

The Bank maintains a portfolio of investment sukuk which it believes that it will be able to utilise as a source of liquidity, either through direct sale or to raise secured funding. The table below shows the classification of the Bank's sukuk investment portfolio by category of investment as at 31 December in each of 2012, 2013 and 2014.

	<b>As at 31 December</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<i>(AED million)</i>		
Available for sale.....	859.6	1,270.6	1,853.5
Held to maturity.....	673.3	327.1	735.0
Held for trading.....	183.4	213.6	292.8
<b>Total investment sukuk.....</b>	<b>1,716.3</b>	<b>1,811.3</b>	<b>2,881.3</b>

The reduction in held to maturity sukuk in 2013 reflected two redemptions in that year, with the proceeds being reinvested in 2014. The increases in available for sale sukuk in 2013 and 2014 reflected the Bank's strategy of growing its sukuk investment portfolio.

Sukuk which are classified as held to maturity are sukuk which the Bank's management intends, and is able, to hold to maturity. Any sale of these sukuk prior to their maturity (other than sales in insignificant amounts) would result in the entire portfolio being reclassified as available for sale. Held to maturity sukuk are initially recognised at fair value and are then carried at amortised cost using the effective profit rate method, which is described in note 3.14 to the 2014 Financial Statements.

Sukuk which are classified as held for trading are those which management holds principally for the purpose of selling in the short-term. These are initially recognised at fair value and subsequently measured at fair value, with any changes in fair value being recognised in the income statement in the period in which they arise.

The remaining sukuk in the portfolio are classified as available for sale. These sukuk are initially recognised at fair value and subsequently measured at fair value, with any changes in fair value being recognised in the statement of comprehensive in the period in which they arise.

On any sale of held for trading sukuk or available for sale sukuk the resulting gain or loss is recognised in the income statement and, in the case of available for sale sukuk, any cumulative change in fair value previously recognised in equity through the statement of comprehensive income is then recognised in the income statement.

### **Borrowings**

The Bank had no borrowings in any of the three years under review and has no borrowings as at the date of this Base Prospectus.

### **CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES**

The Bank has no significant capital commitments, although minor commitments in respect of office units and equipment are described in note 26(b) to the 2014 Financial Statements and note 25(b) to the 2013 Financial Statements.

The Bank has significant contingent liabilities, reflecting undrawn credit commitments which it has made, guarantees which it has given and letters of credit it has advanced. The table below shows the Bank's contingent liabilities as at 31 December in each of 2012, 2013 and 2014.

	<b>As at 31 December</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<i>(AED million)</i>		
Undrawn credit commitments .....	3,656.8	3,731.1	5,136.5
Guarantees .....	925.2	2,134.3	2,797.2
Letters of credit .....	727.7	641.7	739.6
<b>Total contingent liabilities .....</b>	<b>5,309.6</b>	<b>6,507.1</b>	<b>8,673.3</b>

The majority of the undrawn credit commitments identified in the table above are revocable, with only 11.7 per cent. at 31 December 2014 being irrevocable. The irrevocable commitments are typically the undrawn portion of partly drawn working capital facilities and guarantee bonds issued on behalf of customers.

### **ANALYSIS OF CERTAIN STATEMENT OF FINANCIAL POSITION ITEMS**

The Bank's principal assets are its investments in Islamic financing instruments (which are described under "*Investments in Islamic financing instruments*" below), its cash and balances with the UAE Central Bank (which are described under "*Funding and liquidity—Liquidity—Cash balances*" above), its interbank financing (which is described under "*Due from banks*" below) and its investments in Islamic sukuk (which are described under "*Funding and liquidity—Liquidity—Sukuk investment portfolio*" above).

The Bank's principal liabilities are its depositors' accounts which are described under "*Funding and liquidity—Funding*" above.

### Investments in Islamic financing instruments

The table below shows details of the Bank's investments in Islamic financing instruments (which comprises its customer financing portfolio) as at 31 December in each of 2012, 2013 and 2014, classified by type of Islamic financing.

	As at 31 December		
	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>	2014
	<i>(AED million)</i>		
Wakalah.....	500.0	500.0 <sup>(3)</sup>	400.0
Ijarah .....	3,117.9	3,085.5	3,618.1
Murabaha .....	8,874.6	12,184.3 <sup>(3)</sup>	15,528.0
<b>Gross investments in Islamic financing instruments.....</b>	<b>12,492.5</b>	<b>15,769.8</b>	<b>19,546.1</b>
Less: Allowance for impairment.....	(1,615.6)	(1,424.6)	(1,509.3)
<b>Net investments in Islamic financing instruments.....</b>	<b>10,876.9</b>	<b>14,345.2</b>	<b>18,036.8</b>

#### Notes:

- (1) The 2012 financial information included in the table above has been amended to reflect the impact of reclassifications, as explained in "Presentation of financial and other information—Presentation of financial information—Comparability of financial information", and hence differs from the 2013 financial information included in the 2013 Financial Statements.
- (2) The 2013 financial information included in the table above has been extracted from the 2014 Financial Statements to reflect the impact of certain reclassifications applied retrospectively in 2014. See "Presentation of financial and other information—Presentation of financial information—Comparability of financial information". The 2013 financial information included in the table above therefore differs from the 2013 financial information included in the 2013 Financial Statements.
- (3) In 2014, Islamic financing that was previously classified in 2013 as tawarruq and wakalah, was reclassified as murabahah.

The Bank's gross customer financing portfolio grew by AED 3,776.4 million, or 23.9 per cent., in 2014 and by AED 3,277.2 million, or 26.2 per cent., in 2013. This growth principally reflected increases of AED 3,343.7 million, or 27.4 per cent., in 2014 and of AED 3,309.7 million, or 37.3 per cent., in 2013 in murabaha transactions, which in turn reflected growth in the Bank's corporate and Noor Wealth portfolios in line with its strategy.

The table below shows details the movements in the Bank's allowance for impairment in each of 2012, 2013 and 2014.

	2012	2013	2014
	<i>(AED million)</i>		
At 1 January.....	1,464.1	1,615.6	1,424.6
Charge for the year.....	166.4	43.9 <sup>(1)</sup>	122.6
	<b>1,630.5</b>	<b>1,659.5</b>	<b>1,547.2</b>
Written off during the year .....	(14.9)	(234.9)	(37.9)
<b>At 31 December .....</b>	<b>1,615.6</b>	<b>1,424.6</b>	<b>1,509.3</b>

#### Note:

- (1) Charge for the year in 2013 is net of recovery/release amounting to AED 240 million.

The Bank's allowance for impairment principally relates to financings made by it in 2008 at the onset of the global financial crisis.

The table below shows details of the Bank's performing and non-performing investments in Islamic financing instruments as at 31 December in each of 2012, 2013 and 2014.

	As at 31 December		
	2012	2013	2014
	<i>(AED million)</i>		
Performing .....	8,370.1	13,930.7	17,735.2
Past due but not impaired .....	1,016.5	339.9	380.9
of which:			
0-29 days .....	398.8	230.0	225.1
30-59 days .....	39.9	70.6	78.8
60-89 days .....	5.2	23.7	50.1
90 days and above.....	572.6	15.6	26.9
Impaired but not past due.....	222.9	89.6	95.1
Past due and impaired.....	2,883.0	1,409.6	1,334.8
<b>Total impaired.....</b>	<b>3,105.9</b>	<b>1,499.2</b>	<b>1,430.0</b>
<b>Gross investments in Islamic financing instruments.....</b>	<b>12,492.5</b>	<b>15,769.8</b>	<b>19,546.1</b>
Less: Allowance for impairment.....	(1,615.6)	(1,424.6)	(1,509.3)
<b>Net investments in Islamic financing instruments.....</b>	<b>10,876.9</b>	<b>14,345.2</b>	<b>18,036.8</b>

The decrease in past due but not impaired from AED 1,016.5 million as at 31 December 2012 to AED 339.9 million as at 31 December 2013 was due to an overdue profit payment on a single exposure which was regularised within 30 days following 31 December 2012. The decrease in past due and impaired financings from AED 2,883 million in 2012 to AED 1,409.6 million in 2013 principally reflected the fact that during the global financial crisis management conservatively classified as non-performing certain exposures which seemed to be vulnerable even though they had not at the time met the criteria of non-performance classification. During 2013, and reflecting management's revised assessment of these exposures, the classification of many of them was revised. As at 31 December 2014, the Bank's allowance for impairment amounted to 105.6 per cent. of its total impaired investments in Islamic financing instruments, compared to 95.0 per cent. at 31 December 2013 and 52.0 per cent at 31 December 2012.

The tables below show details of the Bank's gross investments in Islamic financing instruments as at 31 December in each of 2012, 2013 and 2014, classified by industry sector.

	As at 31 December		
	2012	2013	2014
	<i>(AED million)</i>		
Construction and real estate.....	1,978.0	1,686.4	2,116.3
Financial institutions .....	4,127.1	4,354.1	3,645.2
Manufacturing .....	467.3	725.2	650.5
Consumer financing and credit cards .....	2,916.5	3,962.4	5,197.0
Trade.....	1,252.5	1,864.6	4,027.4
Transport, storage and communication .....	1,034.2	1,352.7	1,766.9
Other services.....	716.9	1,824.4	2,142.8
<b>Gross investments in Islamic financing instruments.....</b>	<b>12,492.5</b>	<b>15,769.8</b>	<b>19,546.1</b>

	As at 31 December		
	2012	2013	2014
		<i>(per cent.)</i>	
Construction and real estate.....	15.8	10.7	10.8
Financial institutions .....	33.0	27.6	18.6
Manufacturing .....	3.7	4.6	3.3
Consumer financing and credit cards .....	23.4	25.1	26.6
Trade.....	10.0	11.8	20.6
Transport, storage and communication .....	8.3	8.6	9.0
Other services.....	5.8	11.6	11.1
<b>Gross investments in Islamic financing instruments.....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

In 2014, the Bank significantly reduced its proportionate exposure to financial institutions and significantly increased its proportionate exposure to the trade sector in order to increase the diversification of the portfolio. In 2013, the Bank significantly reduced its proportionate exposure to financial institutions and the construction and real estate sector and increased its proportionate exposure to other services.

As at 31 December 2014, government and government related entities accounted for 21.6 per cent. of the Bank's financing. More than 90 per cent. of these transactions were syndicated facilities with other bank lenders and all such transactions have been granted on an arm's-length basis.

#### Due from banks

In addition to its investments in Islamic financing instruments, the Bank also has deposits and current accounts with other banks as well as amounts owed under export bills. The table below shows details of the Bank's receivables from other banks as at 31 December in each of 2012, 2013 and 2014.

	As at 31 December		
	2012	2013	2014
		<i>(AED million)</i>	
Deposits with banks .....	2,638.4	904.6	1,290.9
Current accounts with banks.....	91.6	171.2	315.3
Export bills .....	286.7	1,264.9	1,386.0
<b>Total due from banks .....</b>	<b>3,016.7</b>	<b>2,340.7</b>	<b>2,992.2</b>

The increase in export bills in each of 2013 and 2014 principally reflected the Bank's increased focus on trade financing and reflects increased exporting activity by the Bank's corporate and Noor Trade customers. Deposits with banks principally reflects the Bank's daily money market activities, which fluctuate significantly from day to day.

#### RELATED PARTY TRANSACTIONS

The Bank's principal related party transactions are with its shareholders, members of its key management team and entities controlled by any of them (including Dubai government related entities). These transactions include the provision of financing and the acceptance of deposits. Further information on the Bank's related party transactions in each of 2012, 2013 and 2014 is set out in note 25 to the 2014 Financial Statements and note 24 to the 2013 Financial Statements.

#### CAPITAL ADEQUACY

The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee and adopted by the UAE Central Bank in supervising the Bank.

The primary objectives of the Bank's capital management are to ensure that it complies with externally imposed capital requirements and that it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. The Bank manages its

capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities.

The Bank's regulatory capital consists of tier 1 capital (which comprises the sum of issued share capital, legal reserves and accumulated losses (including profit for the current period), less certain equity investments) and tier 2 capital (which comprises subordinated term investment, the Bank's collective impairment reserve limited to 1.25 per cent. of its risk weighted assets and its asset revaluation reserve).

The Bank manages its capital considering both regulatory and economic capital. The Bank calculates its risk asset ratio in accordance with requirements and guidelines established by the UAE Central Bank, which requires all UAE banks to maintain a ratio of total capital to total risk-weighted assets of at least 12 per cent. The UAE's Central Bank's requirements are broadly in line with those of the Basel II Accord which requires Bank's to maintain a minimum total capital adequacy ratio of 8 per cent. The Bank has capital adequacy ratios well in excess of these minimum requirements, as described below.

The Bank is currently compliant with Basel II having adopted the Standardised Approach for credit risk, the Basic Indicator Approach for operational risk and the Standardised Approach for market risk, consistent with UAE Central Bank requirements. The Bank's Internal Capital Adequacy Assessment Process provides a measurement process for all Pillar II risks which are inherent in the nature of the business and not covered under Pillar I.

In response to the global financial crisis, there has been a worldwide focus on the regulation of financial institutions, with many new regulations and changes in existing regulation having been implemented or in the process of being implemented. Examples of such new regulations include the new Basel III framework which aims to improve the banking sector's ability to absorb shocks arising from financial and economic stress, improve risk management and governance and strengthen banks' transparency and disclosures. The Bank expects to adopt the Basel III guidelines as and when the UAE Central Bank communicates its requirements in this regard. In the meantime, the Bank has begun an initial assessment of, and is committed to a speedy implementation of, Basel III.

The Bank's total capital adequacy ratios were 18.1 per cent. at 31 December 2014, 17.6 per cent. at 31 December 2013 and 19.5 per cent. at 31 December 2012. Its Tier I risk assets ratio was 14.6 per cent. at 31 December 2014, 13.9 per cent. at 31 December 2013 and 14.1 per cent. at 31 December 2012. Details of the manner in which the Bank calculates these ratios and its risk weighted assets are set out in note 27.6 to the 2014 Financial Statements and note 26.6 to the 2013 Financial Statements.

## **DISCLOSURES ABOUT RISK**

The Bank is exposed to a number of financial risks and takes steps to mitigate certain of these risks as described "*Risk management*" and in note 27 to the 2014 Financial Statements.

## DESCRIPTION OF THE BANK

### OVERVIEW

The Bank, which is privately owned, was established by the Government of Dubai in 2007 in line with the vision of the Ruler of Dubai, H.H. Sheikh Mohammed Bin Rashid Al Maktoum, to create a modern *Shari'a*-compliant bank to serve as a global Islamic bank with a futuristic outlook. The Bank officially commenced operations on 7 January 2008.

The Bank offers a comprehensive range of *Shari'a*-compliant products and services in corporate banking, personal banking, wholesale banking, wealth management, treasury and trading.

The four principal business groups through which the Bank conducts its operations are:

- Corporate Banking;
- Wholesale Banking;
- Personal Banking; and
- Treasury.

The Bank also provides Islamic insurance (or *takaful*) services through its Noor *Takaful* affiliates, which commenced operations in 2009.

The Bank launched and continues to operate the first 24 hour, seven days a week branch in the UAE. It currently has 14 branches which are located in the emirates of Abu Dhabi, Dubai and Sharjah. The Bank's head office is in Dubai and it also has 62 cash and cheque deposit machines (CCDMs) and automated teller machines (ATMs) across the UAE.

As at 31 December 2014, the Bank's customer financing portfolio was AED 18.0 billion, its customer deposits were AED 23.9 billion and its total assets were AED 29.0 billion. The Bank's profit for the year in 2014 was AED 678.1 million and its total capital adequacy ratio and Tier 1 risk assets ratio were 18.1 per cent. and 14.6 per cent., respectively, at 31 December 2014.

The Bank has been assigned long term ratings of "A-" with a "stable outlook" by Fitch.

The Bank's registered office is at Building 1, Level 8, Emaar Square, Downtown Dubai, P.O. Box 8822, Dubai, UAE and its telephone number is +971 (0) 4 427 4343.

### HISTORY

The Bank was established with initial equity in excess of U.S.\$1 billion. The Bank is one of only two banks in UAE to be given a special exemption by the UAE Federal Cabinet to continue to operate as a private entity rather than listing its shares on a public stock exchange immediately upon incorporation as required under UAE Banking Law No.10 of 1980.

The Bank's initial Board was selected and nominated by the Government of Dubai through a Royal Decree.

The Bank opened in January 2008 with 10 branches covering Abu Dhabi, Dubai and Sharjah. Later in 2008, the Bank launched its online banking platform and, in 2013, it launched a mobile banking application. In addition, in line with the Bank's strategy of tapping UAE trade flows and expanding its product suite, in 2013 it launched the 'Noor Trade' initiative.

In 2014, as part of a rebranding exercise, the Bank changed its name from Noor Islamic Bank to Noor Bank. Despite dropping the word Islamic from its name, the Bank remains committed to operating in accordance with Islamic principles and continues to develop and offer innovative *Shari'a*-compliant products and services.

During its relatively short operating history, the Bank has received more than 30 industry awards within the markets in which it operates. These awards include:

- "Best Corporate Finance Solutions Provider" – Capital Finance International Magazine, London 2014;
- "Islamic Finance Bank of the Year Award" – Trade and Export Middle East 2013;
- "Best New *Takaful* Company & Best *Takaful* Marketing" – International *Takaful* Awards 2011;
- "Best New Bank in the Middle East Award" – Banker Middle East Industry Awards 2009; and
- "Best New Islamic Bank" – International Islamic Forum 2008.

## SHAREHOLDERS AND SHARE OWNERSHIP

The Bank was established with an initial paid up capital of more than AED 3 billion. The Bank is one of only two banks in the UAE to be given special exemption by the UAE Federal Cabinet to continue to operate as a private entity, rather than listing its shares on a public stock exchange immediately upon incorporation as required under UAE Banking Law No. 10 of 1980.

The Bank was established in 2007 under the specific instruction of the Government of Dubai, with the shareholders and the Board of Directors also selected and nominated directly by the Government of Dubai. The Government of Dubai, members of the Ruling Family of Dubai and a select group of Government of Dubai nominated UAE nationals directly own 87.8 per cent. of the Bank's shares in aggregate.

The remaining shares are owned by a member of Abu Dhabi Ruling Family, the Government of the United Arab Emirates, acting through Emirates Investment Authority (EIA), and an employee stock ownership trust.

### Significant shareholdings

The Government of Dubai, acting through the Office of the Crown Prince of Dubai, owns 25.73 per cent. of the Bank. HH Sheikh Hamdan Bin Mohammed Bin Rashid Al Maktoum is the Crown Prince of Dubai, and is the Chairman of the Dubai Executive Council.

The Government of Dubai, acting through Investment Corporation of Dubai (ICD), owns 22.71 per cent. of the Bank. ICD is the investment arm of the Government of Dubai and was formed in May 2006 through the transfer of the Government's portfolio of investments previously managed by the Dubai Department of Finance. Chaired by the Ruler of Dubai, ICD's current portfolio comprises shareholdings in a number of well-known Dubai companies including Emirates Airlines, Emirates NBD Bank, Dubai Islamic Bank, Commercial Bank of Dubai, Emirates National Oil Company Limited and Dubai Aluminium Limited.

The Government of the United Arab Emirates acting through EIA, owns 4.70 per cent. of the Bank. EIA was established by Emiri decree in November 2007 and is a sovereign wealth fund for all seven emirates comprising the UAE. Chaired by HH Sheikh Mansour Bin Zayed Al Nahyan, EIA is dedicated solely to the future enrichment of the UAE Federal Government.

No shareholder, other than the ones listed above, owns more than 5 per cent. of the Bank's shares.

In order to recognise and retain key employees, an employee stock ownership trust was introduced in 2013. According to the terms of this scheme, shares are held in trust on behalf of the potentially eligible employees and the legal ownership of these shares will only be transferred to the beneficiary employees once the legal and regulatory environment of the UAE permits the ownership to be so vested in the future. The employee stock ownership trust constitutes less than 5 per cent. of the Bank's share capital.

## STRATEGY

### Objective

The Bank's key objective is to become a world class leader in, and provider of, *Shari'a*-compliant financial products and services. To achieve this, the Bank's strategy is designed to exploit Islamic banking growth opportunities, both locally and internationally. The Bank is committed to developing and offering a broad spectrum of modern *Shari'a*-compliant financial products and services, with the aim of becoming the most recognised Islamic banking brand and the largest global financial institution in its field, thereby creating opportunities for its partners, shareholders and employees.

### Strategic focus

The Bank believes that growth and development in the UAE economy are creating opportunities for the financial sector with new investments by companies, new entrants and growing trade flows. In addition, it believes that a market-wide move towards enhancing the role of the *Shari'a*-compliant financial sector in Dubai in line with Ruler's vision to establish Dubai as the hub of the Islamic economy provides additional opportunities for progressive *Shari'a*-compliant banks.

With this background, the Bank's strategic focus is on growing its business through increased market penetration and diversification, enhanced product capabilities, focusing on cross selling and expanding its deposit base.

### ***Increased market share***

The Bank has adopted a universal bank model, offering products and services to corporate, wholesale, personal and treasury customers. The Bank has experienced growth above the industry average in Dubai in recent years and, while the Bank continues to focus on its existing corporate and wholesale banking franchise, it also intends to build on the recently launched Noor Trade, Noor Wealth and Noor Home initiatives with a view to increasing its market share significantly as part of its growth strategy.

The Bank has developed an innovative *Shari'a*-compliant banking service specifically tailored for emerging corporate middle market corporate customers and offers a unified window through which these customers can access a wide range of services such as cash management, trade and working capital finance, treasury, personal banking and takaful solutions, under the brand name of Noor Trade. The Bank is seeking to establish Noor Trade as a unique offering by building a dedicated distribution network, delivering services through skilled relationship managers and offering a leading digital platform and customised products.

The Bank also provides wealth management services high net worth individuals (HNWIs) under the Noor Wealth brand, which it intends to establish as a leading wealth management platform through preferential pricing, lifestyle benefits and high levels of customer service.

In addition, in the Corporate and Wholesale Banking business groups, the Bank aims to achieve greater market penetration through targeting customers in a range of sectors, including the energy, trading, manufacturing and services sectors, whilst retaining its existing focus on government related entities (GREs). The Bank is also one of the only *Shari'a*-compliant banks that delivers integrated and seamless trade solutions to its institutional and corporate customers.

The Bank continues to broaden its network and product range both as a means of differentiation and to acquire greater market share. Historically, the Bank's corporate and wholesale banking presence has been its core strength which it intends to continue to build on in order to achieve greater market share.

### ***Focus on customer service***

The Bank remains focused on customer service, which it believes increases opportunities for new customer acquisitions, increases cross-selling and complements its financial products offering. One of the foundations of the Bank's customer-centric approach is a model in which sales and services, as well as product development and innovation, are aligned to cater to the needs of each segment in which it operates. This approach also enables specialist risk management based on the best practice applicable to each of the segments.

### ***Product capabilities***

Within the Corporate and Wholesale business groups, the Bank expects to continue to grow through initiatives such as:

- capitalising on Dubai's position as a trade and services hub by focusing on developing and offering leading *Shari'a*-compliant trade products as well as by supporting clients in countries with significant UAE trade flows;
- originating, executing and distributing cross border Islamic syndicated transactions, particularly through engaging mid to large corporates and targeting the public sector and GREs; and
- establishing strategic alliances with leading service providers to increase the Bank's speed of execution and flexibility.

Within the Treasury business group, the Bank intends to develop a product suite both for its customers and to enhance its own balance sheet management capabilities. In addition, it expects to continue to invest in resources and technology with a view to developing a leading sukuk trading capability and new *Shari'a*-compliant structured treasury products.

### ***Strong focus on cross-selling***

The Bank's strategy also includes a focus on cross selling with a view to increasing its revenue through fee-based income. In particular, the Bank intends to focus on:

- providing Sukuk issuances and syndicated facilities for existing corporate and Noor Trade customers;
- providing structured trade solutions for corporate and Noor Trade customers;

- cash management solutions for corporate and Noor Trade customers;
- selling Treasury products to HNWI's;
- selling personal banking and insurance products to corporate and Noor Trade customers; and
- selling Noor Wealth products to qualifying members of management in its corporate and Noor Trade customer base.

### ***Funding***

Whilst the Bank believes that it has one of the highest proportions of low cost current and savings account deposits in the UAE, which derive from its personal and corporate banking as well as its Noor Trade customers, it also believes that there is scope to increase deposits from Noor Wealth customers across the UAE and in the wider MENA and South East Asia regions through the use of dedicated customer relationship teams. The Bank intends to closely monitor its corporate deposits using a disciplined approach to concentration management.

The Bank is also seeking to diversify its funding sources through accessing the international capital markets and building a diverse investor base.

### ***Islamic structured trade finance solutions***

In order to take advantage of Dubai's status as a trade hub, the Bank has identified Islamic structured trade finance solutions as a key strategic initiative. It believes that this will not only differentiate the Bank from its competitors but will also enable the Bank to tap the trade flows between Dubai and its major trading partners. The Bank offers *shari'a*-compliant structured trade finance solutions to facilitate Dubai's trade with its major trading partner countries through entering into financing arrangements with banks and financial institutions in the Indian sub-continent, the Far East, Africa and the Middle East.

## **STRENGTHS**

The Bank believes that its principal strengths are:

### **Its strong and influential shareholders**

The Bank has the highest percentage of Dubai sovereign ownership among all banks with Dubai government ownership and is also the only bank in the UAE to have members of the Dubai and Abu Dhabi Ruling Families, as well as both the Dubai and UAE federal governments, as major shareholders. In addition, the Bank is the only bank in Dubai with a Ruling Family member as Chairman since inception. At launch, the Chairman was His Highness Sheikh Ahmed Bin Saeed Al Maktoum. In June 2011, the Chairmanship passed to His Highness Sheikh Ahmed Bin Mohammed Bin Rashid Al Maktoum.

In addition to the direct shareholdings of the Government of Dubai and UAE Ruling Family members, the Bank's shareholders also include the chairmen of notable Dubai companies, including Emirates Airlines, Emaar Properties, DP World, Dubai Holding and Meraas Holding. These factors provide the Bank with the opportunity to cross sell its products and services to the Governments of Dubai and the UAE and their associated entities.

### **Its strong Board, experienced management and progressive Fatwa and Shari'a Supervisory Board (FSSB)**

The Bank's first Board was nominated by the Government of Dubai. The current Board is chaired by a member of the Dubai Ruling Family and its members include the Director of the Ruler's Office in Dubai, a UAE Minister of State, the Chairman of the Dubai Financial Market and the Dubai International Financial Centre, the Chairman of DP World, the Chairman of Emaar Properties and the Chairman of Meraas Holding.

The Bank's management team comprises 15 members with a cumulative 328 years of relevant experience or an average of 20 years' experience each. A number of the key members of the Bank's management team have been associated with the Bank since it was established, providing continuity in both the execution of the Bank's strategy and the conduct of its day to day operations. As a result, senior management at the Bank has substantial experience and know how in both the banking industry and the operation of Islamic financial institutions in local, regional and international markets. The management team has been recognised through more than 30 industry awards over the past five years in areas such as innovative products, leading positions in Islamic finance league tables, service quality and compliance.

The FSSB is an independent board of *Shari'a* scholars appointed by the Board. The FSSB comprises leading Islamic scholars who have extensive experience and expertise in legal, financial and banking related matters. The FSSB works closely with the Bank's business groups to create innovative solutions that are in strict adherence to the principles of *Shari'a*. The Bank believes that its progressive FSSB is a key strength enabling it to structure a broad range of innovative and effective products and solutions, including factoring, credit insurance, escrow management, wealth management and a range of derivative and structured products.

See "*Risk factors—Risks relating to the Bank and its ability to fulfil its obligations under the Transaction Documents—The Bank has a short operating history*".

### **Its innovative product portfolio**

The Bank believes that it offers one of the most comprehensive and innovative product suites amongst Islamic banks operating in the GCC. For example, the Bank believes that Noor Trade offers a broader range of financing products than any of its Islamic competitors. These include discounting, factoring and other receivable-backed structures as well as letters of credit and open account financing. The Bank believes that many of these products also offer greater flexibility than competing Islamic products through prepayments, rebates and elimination of inspection requirements. The Bank also remains one of only a few Islamic banks in the GCC to provide *Shari'a*-compliant structured financial institution trade solutions for its customers and financial institutions across the Indian sub-continent, the Far East, Turkey and Africa.

The Bank was one of the first to offer its personal customers an online account opening facility. In addition, mobile applications to enable online transactions by the Bank's customers have been launched and the Bank is investigating a potential unmanned branch, in relation to which it displayed a concept module in the Gitex Technology Week exhibition in the Dubai World Trade Centre in 2013.

The Bank believes that its product portfolio encourages a shift away from conventional banking for customers who are interested in Islamic solutions, particularly where it is able to offer products that are similar to those offered by its conventional competitors.

### **Its strong customer relationships**

Since it commenced business, the Bank has established a track record of increasing its customer base and expanding its business with existing customers. For example, in 2013 and 2014, the Bank's corporate client base grew by 69 per cent. and 16 per cent., respectively, in terms of the number of customers.

The Bank's Corporate and Wholesale business groups focus on achieving major bank status with their existing customers with a view to creating on-going follow-on business from new securities issuance, re-financings and through the provision of growth capital.

To date, the Bank has lead arranged Islamic capital markets transactions with a value of more than U.S.\$40 billion for its customers. It is also a significant arranger of Islamic finance capital markets transactions for a range of clients in the Middle East, Europe and Asia.

### **Its culture of prudent risk management**

The Bank operates with conservative funding and liquidity policies and also seeks to achieve strong credit risk management through stringent underwriting standards and an effective remedial financing department.

The Bank places emphasis on liquidity over profitability and maintains consistently lower financing to deposits ratios than is typical in the UAE market. For example, as at 31st December in each of 2014, 2013 and 2012, the Bank's financing/customer deposits ratios were 75.6 per cent., 76.9 per cent. and 77.4 per cent., respectively. As at the same dates, the averages of the same ratio for the UAE banking sector were 97 per cent., 100 per cent. and 101 per cent., respectively. To achieve these lower ratios, the Bank focuses on developing relatively long-term funding from customer deposits, with deposits having a maturity in excess of 12 months comprising 10.5 per cent. of its total deposits at 31 December 2014 compared to 9.6 per cent. at 31 December 2013. See note 27.2 to the 2014 Financial Statements.

The Bank also maintains one of the highest levels of liquidity among Islamic banks in the UAE, with its Liquid assets ratio being 30.5 per cent. at 31 December 2012, 29.3 per cent. at 31 December 2013 and 30.1 per cent. at 31 December 2014. It also maintains significant cash balances with the UAE

Central Bank and has a portfolio of sukuk investments (amounting to AED 2.9 billion at 31 December 2014) which provides additional cash raising capacity through sales or secured funding.

In addition, the Bank has one of the most conservative loans to deposits ratios and one of the highest current and saving deposits to total deposits ratios among banks in the UAE, providing low cost and stable funding to support the future growth of the Bank.

The Bank's impairment reserves were AED 1.5 billion at 31 December 2014, giving it impairment reserve cover of 105.6 per cent., one of the highest coverage ratios among all banks in the UAE. The Bank believes that the effectiveness of its remedial financing department is reflected in the fact that it recovered AED 901.1 million from impaired accounts between 2012 and 2014 compared to write-offs of AED 287.6 million over the same period.

#### **Its strong balance sheet and improving profitability**

The Bank believes that it has a strong balance sheet illustrated by its liquid assets ratios described above, its financing/customer deposits ratios which were 77.4 per cent. at 31 December 2012, 76.9 per cent. at 31 December 2013 and 75.6 per cent. at 31 December 2014 and its Tier 1 risk assets ratio which were 14.1 per cent. at 31 December 2012, 13.9 per cent. at 31 December 2013 and 14.6 per cent. at 31 December 2014. Approximately 50 per cent. of the Bank's deposits at 31 December 2014 were current and savings deposits, one of the highest ratios among banks in the UAE.

The Bank's profit for the year was AED 75.6 million in 2012, AED 255.4 million in 2013 and AED 678.1 million in 2014. Over the same period, its net profit margins were 2.0 per cent., 2.4 per cent. and 3.1 per cent., respectively.

#### **Diversified earnings base**

Due to its increased focus on cross-selling as part of its core strategy across multiple business segments, the Bank has a diversified earnings profile. For example, its net fees and commissions contributed AED 295 million in 2014, equal to 29.3 per cent. of its total operating income in that year. The Bank believes that it has more diversified earnings than many of its competitors, reflecting optimum utilisation of its balance sheet and its capital.

### **BUSINESS OVERVIEW**

The Bank's four principal business groups are Corporate Banking, Wholesale Banking, Treasury and Personal Banking. These groups are managed from the Bank's head office in Dubai and operate through the Bank's branches across the UAE.

#### **Corporate Banking business group**

The Bank operates a full service corporate bank which includes over 40 relationship management and product professionals across the UAE. All of the Bank's corporate banking products and services are *Shari'a*-compliant and utilise financing techniques such as commodity or other asset-based murabahah transactions, ijarah transactions and Islamic covered drawings.

The Corporate Banking business group provides a comprehensive range of products and services to small, medium and large sized corporate customers. The business group's customer financing portfolio accounted for 65.6 per cent. of the Bank's total gross customer financing portfolio and 44.2 per cent. of its total assets at 31 December 2014.

The Corporate Banking business group is currently focused on growing and diversifying its client base and pursuing cross-selling opportunities. In 2013, the business group relaunched its commercial and trade-related businesses under the Noor Trade brand.

The Corporate Banking business group believes that it benefits from:

- a broader trade product offering and a stronger treasury product base than other *Shari'a*-compliant banks operating in the UAE;
- a demonstrated track record of innovation (for example, it was the first UAE bank to launch a direct debit service, it was the first *Shari'a*-compliant bank to conduct online commodity murabahah transactions with DMCC, a free zone established by the Dubai government in 2002 to enhance commodity trade flows through Dubai, and it was among the first banks in the UAE to comply with the UAE wages protection scheme); and
- a strong service and delivery ethos with high levels of customer satisfaction.

The Corporate Banking business group services its customers through a number of units organised on both a geographical and product-specific basis. The majority of the units are based in the Bank's head office. The units include:

#### ***Public sector and large corporates***

The public sector and large corporates unit caters to public sector entities and large GREs, primarily based in and around Dubai.

#### ***Dubai & Jebel Ali***

The Dubai & Jebel Ali unit serves private sector companies based in and around Dubai and the Jebel Ali region. These corporate clients may belong to any sector other than the public sector.

#### ***Sharjah & the Northern Emirates***

Like the Dubai and Jebel Ali unit, the Sharjah and northern emirates unit, which is based in Sharjah, serves private sector companies in its specific geographical jurisdiction.

#### ***Abu Dhabi & contracting***

The Abu Dhabi & contracting unit, which is based in Abu Dhabi city, supports and manages business from clients based in Abu Dhabi City as well as adjoining areas and cities in the southern and eastern region. Additionally, this unit is also responsible for identifying financing opportunities to contractors executing building, electrical and mechanical infrastructure works across a range of sectors.

#### ***Global Transaction Services (GTS)***

GTS focuses on product development and management, service delivery and product sales. Since the inception of the Bank, GTS has delivered a broad range of innovative, *Shari'a* compliant cash management, trade and working capital finance solutions to a growing client base across multiple business segments (large corporates, mid-market corporates and financial and non-banking financial institutions). GTS solutions are tailored towards optimising the working capital cycle of clients by introducing efficiencies across the client's financial supply chain.

In the cash management area, GTS provides standard industry solutions as well as customised solutions for larger and more sophisticated clients. The products offered include corporate online banking, local and international payments, payroll processing, structured multi-channel collections, post-dated cheque management, escrow services, corporate and prepaid card solutions, short-term liquidity management, reconciliation and integrated enterprise resource planning solutions.

The GTS trade solutions facilitate the Bank's customers' access to regional and global markets. GTS seeks to understand its customer's requirements and to devise trade solutions that best meet their business objectives and reduce the risks associated with trading overseas or domestically. The range of GTS trade solutions covers import and export services (such as letters of credit, documentary collections and guarantees) and financing options. More advanced supply chain finance solutions such as factoring (post-dated cheques or receivables financing with or without credit insurance) are also offered. The Bank believes that it is one of only a few Islamic financial institutions that offer advance open account finance solutions.

GTS has also developed strategic partnerships to enhance its capability, shorten its delivery time and improve its process efficiencies. For example, its partnership with DMCC to deliver online commodity murabahah settlements is one the first in the industry.

#### ***Noor Trade***

Trade is one of the key pillars of Dubai's economy. In 2014, Dubai's total trade volume was in excess of AED 1.3 trillion. While there are a number of banks offering customised trade finance and working capital solutions to tap these trade flows, there is a scarcity of *shari'a*-compliant solutions for emerging corporate and middle market clients primarily dealing in trade sector in Dubai. Reflecting the opportunity this segment offers, and in line with the Bank's focus on supporting UAE trade flows, the Bank launched its Noor Trade initiative in 2013.

Noor Trade represents a significant investment in repositioning and increasing the scale of the Bank's commercial and trade-related business propositions, to create a stand-alone business with a distinct brand identity. Noor Trade provides Islamic structured working capital, trade finance and deposit related products and services to emerging corporate and middle market clients with annual turnover

of up to U.S.\$100 million. Noor Trade's clients are managed by dedicated relationship managers located in dedicated Noor Trade branches (in the DMCC and in Deira) which have been opened to enhance service delivery. The Noor Trade brand has been created to differentiate this business in the market place as well as to bring focus on this particular business by leveraging its Islamic trade finance expertise. Unlike many other Islamic banks in the GCC, the Bank has been able to develop a comprehensive suite of Islamic structured working capital and trade finance solutions across multiple sectors through targeting emerging corporate and middle market customers looking for *shari'a*-compliant solutions.

As at 31 December 2014, Noor Trade had a gross financing portfolio of AED 1.9 billion and its customer base grew by 97.2 per cent. in 2014. The financing provided by Noor Trade is predominantly in the form of short-term trade related facilities.

### **Wholesale Banking business group**

The Wholesale Banking business group is divided into two departments: capital markets & syndications and financial institutions and international banking.

#### ***Capital markets & syndications***

The capital markets & syndications department offers a diversified range of products, including syndication, project financing, sukuk, structured finance and securitisation, as well as financial advisory and agency services. Since the Bank was launched in January 2008, the capital markets & syndications department has arranged more than 55 syndication and capital markets transactions with an aggregate value in excess of U.S.\$40 billion for institutions across the GCC and in Asia and Europe.

In 2013, the capital markets & syndications department arranged transactions with a value of approximately U.S.\$7 billion, taking first position in the Bloomberg Islamic Finance Mandated Lead Arranger and Bookrunner league tables. In 2014, the department arranged transactions with a value of over U.S.\$9.7 billion, taking third position in the Bloomberg Islamic Finance Mandated Lead Arranger and Bookrunner league tables. Other awards in the last three years include:

#### *The Banker Magazine (Financial Times) Awards*

2014: Securitisation & Structured Finance Deal of the Year

#### *Islamic Finance News Awards*

2014: Ijarah Deal of the Year and Tawarruq Deal of the Year

2013: Syndicated Deal of the Year

2013: Cross Border Deal of the Year

2012: Tawarruq Deal of the Year

The capital markets & syndications department also manages one of the most active agency desks within Islamic banking, with more than 20 agency mandates with an aggregate value in excess of U.S.\$10 billion at 31 December 2014.

#### ***Financial institutions & international banking***

The financial institutions & international banking department is responsible for establishing and maintaining correspondent relationships with financial institutions internationally in order to satisfy its customers' business requirements in areas such as international trade finance and international payments in all major currencies.

Currently, the financial institutions & international banking department has exposure across various regions including Africa, South Asia, the Middle East, Europe and Far East Asia.

### **Treasury Banking business group**

The Bank's Treasury Banking business group is responsible for providing the Bank with its funding and foreign exchange requirements and for managing its own balance sheet risks that arise out of its business activities, including liquidity, foreign exchange and profit rate risks. In addition, the Treasury Banking business group provides the Bank's customers with access to financial markets to manage their own risk and investment requirements. The business group uses, and offers to its customers, an advanced range of *Shari'a*-compliant treasury products.

The Treasury Banking business group uses an advanced IT system to capture, measure and report financial positions. It is supported by a dedicated treasury operations team to manage back office activities and is overseen by an independent market risk department.

The Treasury Banking business group operates through four key desks: sukuk trading; money market and foreign exchange; structured products; and treasury sales.

#### ***Sukuk trading desk***

The sukuk trading desk is an active market maker in regionally and internationally traded sukuk instruments. The desk has grown in recent years, acquiring an expanded international customer base by offering its clients competitive pricing and effective access to markets. In addition to trading, the sukuk desk also manages the Bank's liquidity portfolio. As at 31 December 2014, the sukuk desk managed portfolios with a combined value of AED 2.9 billion. See note 27.1 to the 2014 Financial Statements for an analysis of the Bank's investment in sukuk based on ratings obtained from external ratings agencies.

#### ***Money market and foreign exchange desk***

The money market and foreign exchange desk sources the Bank's funding and foreign exchange requirements from the inter-bank market. It works closely with the other business groups to understand the Bank's future funding requirements, and it raises liabilities and invests surplus funds to meet these requirements. The Bank covers foreign exchange requirements for itself and customers on a spot and forward basis (Wa'ad). It also sources physical gold for customers with an option for delivery or storage within the Bank's secured facilities.

#### ***Structured products desk***

The structured products desk has developed a portfolio of *Shari'a*-compliant products for customers to manage their financial requirements and investment needs. It quotes on a broad range of hedging products, including profit rate and cross currency swaps. The structured products desk also provides a range of structured products which allows customers an efficient way to gain investment exposure to a range of asset classes. In early 2014, the Bank was awarded the Best New Investment Product at the Banker Middle East UAE Product Awards for its commodity pick and drop structure.

#### ***Treasury sales desk***

The treasury sales desk markets the Bank's range of treasury products to institutional, corporate and retail customers. The desk works closely with relationship managers from other business groups and units. It also works with customers to understand their needs and provide tailored financial solutions.

### **Personal Banking business group**

The Bank provides a comprehensive range of personal financial solutions from transactional services to financial planning. Maintaining an effective framework that meets the customers' wealth management, wealth preservation and regular banking needs is a priority for the Bank. At 31 December 2014, the Personal Banking business group accounted for 24.7 per cent. of the Bank's total gross customer financing portfolio. The business group's principal units are Noor Wealth, Noor Home, personal finance/cards, auto finance, banca takaful and transaction & saving solutions, and its principal focus is on excelling in Noor Wealth and Noor Home as well as on attracting deposits.

#### ***Noor Wealth***

The Noor Wealth unit offers its high net worth customers financial expertise, service excellence across multiple banking channels and lifestyle benefits designed to meet their financial and lifestyle needs. The Bank has dedicated Noor Wealth relationship managers for its valued priority customers. These relationship managers consult the Bank's experienced team of investment advisors, treasury specialists and credit analysts to design tailor-made *Shari'a*-compliant wealth management solutions for customers that will allow them to best grow and protect their wealth.

The Bank's Noor Wealth proposition includes:

- 60-minute priority account opening from the UAE;
- award-winning capital protected structured deposits;
- Islamic mutual funds from a range of leading providers;

- physical gold investments, savings and protection plans and trust account services provided through the Bank's partners;
- a dedicated foreign exchange desk providing solutions and preferential pricing for major international currencies;
- specialised mortgage solutions to help customers (resident or non-resident) own a home in Dubai;
- international banking services to non-resident customers in the GCC, Africa and Asia; and
- lifestyle benefits such as complimentary membership to selected gyms, access to selected golf clubs, free valet service at selected malls in Dubai, travel assistance, marhaba lounge access and premier driver assistance.

### ***Noor Home***

Noor Home is positioned as a brand providing mortgage solutions with a competitive and personalised customer service experience. Noor Home caters to UAE nationals, UAE residents and certain non-UAE residents offering financing to acquire residential property at competitive prices. The Bank is committed to providing its customers with the knowledge and tools necessary to simplify the home buying procedure and to make buying a home in the UAE as stress free and convenient as possible.

The Bank's Noor Home finance proposition includes:

- finance up to a maximum of AED 20 million or 80 per cent. of the value of the home for UAE nationals and 75 per cent. for expatriates;
- a flexible and competitive pricing structure through an annual EIBOR-linked re-pricing option as well as a fixed rate product for two or three years;
- a range of *Shari'a* products covering purchases, buyouts and equity release for both new and off-plan properties;
- products for salaried and self-employed clients who are UAE residents as well as non-resident GCC, G20, Pakistani and Singaporean nationals;
- life takaful and property cover along with the finance facility; and
- no requirement for salary transfer or employer listing and approval within 48 hours.

### ***Personal financelcards***

The Bank aims to deliver the most convenient Islamic personal finance products and services designed to meet the specific needs of its customers. The key features and benefits of the Bank's personal finance offering include convenient payment plans of up to 48 months, competitive profit rates, free lifetime credit cards, simple documentation and a quick approval process.

### ***Auto finance***

The Bank's auto finance proposition provides minimum formalities and flexible payment periods and includes:

- a minimum 20 per cent. down payment for salaried and self-employed customers;
- finance available for both new and used cars;
- no salary transfer or employer listing being required for salaried customers and approval within 24 hours; and
- finance available over a maximum payment period of 60 months.

### ***Banca takaful***

The Bank's portfolio of takaful solutions include savings, investments, travel, health, lifestyle, life protection and asset protection.

### ***Transaction & saving solutions***

The Bank provides a range of transaction and saving solutions such as current accounts, savings accounts, dual accounts, wakala/mudaraba, payroll accounts, National bonds, remittance services and foreign exchange services.

## **AFFILIATES**

The Bank has a 10 per cent. shareholding in each of Noor Takaful Family PJSC and Noor Takaful General PJSC, which were each established in early 2008 to provide a broad range of takaful general and customised products and services to individuals, families, groups and companies in the UAE market. These companies were established in compliance with Federal Law No 6 of 2007, which requires life and non-life insurance businesses to be separate legal entities.

Noor Takaful has committed itself to being at the forefront of the takaful sector in the Middle East. Its products include motor takaful, medical takaful, travel takaful, commercial takaful and personal takaful supported by the GCC's first e-takaful service providing instant quotes and online payment facilities.

In the six years since launch, the Bank has made tangible progress in consolidating its takaful scope and reach within the UAE market and has also successfully established the Noor Takaful brand, creating a solid foundation and platform for future growth. The Noor Takaful brand is based on high quality protection through modern, flexible, state-of-the-art channels and is backed by financially strong, A rated, re-takaful partners.

## **FINANCE PORTFOLIO AND CUSTOMER DEPOSITS**

The Bank's finance portfolio is discussed under "*Financial Review—Analysis of certain statement of financial position items*". The Bank's customer deposits are discussed under "*Financial Review—Funding and liquidity—Funding*".

## **COMPETITION**

Within the UAE, the Bank faces competition in all of its principal business areas. The Bank's principal competitors include both locally incorporated and foreign banks operating in the UAE, in each case including both conventional and Islamic banking institutions and specialist Islamic financing companies.

As at 31 December 2014, there were 49 banks holding full commercial banking licences in the UAE with the Islamic banking sector including seven Islamic banks, comprising the Bank, Abu Dhabi Islamic Bank, Dubai Islamic Bank, Sharjah Islamic Bank, Emirates Islamic Bank, Al Hilal Bank and Ajman Bank. In addition, a number of conventional banks have established Islamic windows through which they provide *Shari'a*-compliant products and services, including National Bank of Abu Dhabi, Abu Dhabi Commercial Bank, First Gulf Bank, Mashreq Bank, Union National Bank and Standard Chartered Bank. See further "*The UAE banking sector and regulations*".

Notwithstanding the relatively high level of competition in the UAE banking sector, the Bank expects the continuing growth of the UAE economy to lead to an overall growth in demand for banking services, and Islamic products in particular due to the continued improvement in Islamic banking products and, more generally, an increased understanding and acceptance of Islamic finance.

## **COMPLIANCE**

The Bank is committed to building and maintaining a culture of ethical behaviour, corporate governance and regulatory compliance. The Bank's compliance function is independent from the business activities of the Bank and is managed by the Head of Compliance, who leads a team of experienced staff and reports to the Bank's Head of Risk. Among other matters, the compliance function is responsible for:

- determining the internal measures and procedures needed to comply with applicable laws, regulations, procedures and internal standards and providing appropriate guidance to employees in this respect;
- preparing compilations of applicable rules and instructions, in conjunction with the Bank's in-house legal department, and distributing this information to the Bank's employees;
- monitoring adherence to all applicable laws, regulations, procedures and internal standards either directly or by delegating this responsibility to other clearly identified departments or persons as part of the Bank's internal control process;
- assisting management in ensuring that all activities in the Bank are conducted in conformity with all applicable requirements;
- assessing the appropriateness of the Bank's compliance-related guidelines and, where necessary, proposing amendments;

- updating management on compliance matters on a regular basis summarising:
  - compliance testing that has taken place during the reporting period;
  - any material compliance incidents during the reporting period and the actions taken to address these incidents; and
  - the status of any outstanding action plans.

The Bank's Head of Compliance received the 2013 Chief Compliance Officer of the Year Award at the Thomson Reuters – Governance Risk & Compliance Awards.

The Bank seeks to ensure that it maintains full compliance with all applicable laws and regulations (including those promulgated by the US Office of Foreign Assets Control, the European Union and the United Nations), through internal policies such as its Compliance Programme, Anti-Money Laundering (AML) Manual, AML Policy and Negative & Watch List Policy, which are approved by senior management and the Board. Effective AML and know your customer (KYC) procedures form a fundamental part of the Bank's internal control regime. The Bank has introduced risk-based KYC standards, which apply across retail and corporate services, commercial trade transactions and correspondent banking. Ongoing KYC, AML and sanctions training is provided to all of the Bank's employees on a regular basis.

### **INTERNAL AUDIT**

The Bank's internal audit department comprises a mix of qualified auditors and experienced business persons who perform internal audits of all of the business groups and other units of the Bank and provide an independent assessment of internal controls and compliance with internal and external regulatory requirements. Each internal audit report is shared with management to enable implementation of the suggested corrective action plans and internal audit reports also presented periodically to the Board's Audit Committee.

The internal audit department has adopted the internal audit practices recommended by the Institute of Internal Auditors and local regulatory bodies. The Bank also deploys more internal audit resources to comparatively higher risk areas of the business as a risk-based audit methodology has been adopted.

In addition to ongoing internal audit reviews, the Bank's financial statements are audited annually by its external auditors. Further, regulatory bodies like the Financial Audit Department of the Dubai government and the UAE Central Bank also perform regular audits of the Bank's activities.

### **INFORMATION TECHNOLOGY**

The Bank uses IT strategy to support the delivery of its business strategy. The Bank believes that it has state of the art technology platforms and infrastructure and that its technology services are robust, simple, innovative and reliable. The Bank deals with various managed services partners and outsourcing vendors to achieve its long-term strategic IT vision, which is to ensure that technological deliveries are business-aligned and client-focused.

The Bank's IT complies with international standards and best market practices, including Control Objectives for Information and related Technology (COBIT), Information Technology Infrastructure Library (ITIL), Information Security Management System (ISO27001), and Business Continuity.

The Bank has a data centre with full fledge redundancies, high availability, and a clustered environment. It has also established a synchronised disaster recovery site which is in real-time replication with the data centre.

## RISK MANAGEMENT

### INTRODUCTION

The role of risk management is to understand, measure and manage risk in all aspects of the Bank's business. The Bank aims to embed a risk management culture in all of its business processes and to ensure that a risk management culture is adopted throughout the organisation. Accordingly, the Bank seeks to continually improve its risk management in line with industry standards and UAE Central Bank guidelines and by investing in the right people and systems.

The Bank's risk management framework is focused on fully integrating enterprise-wide risk management into its operations and culture. The risk management structure covers credit risk, market risk, liquidity risk, legal risk, operational risk and compliance and remedial management. The Bank seeks to ensure that risks are proactively identified and managed and it aims to achieve an appropriate balance between risk and return and to minimise potential adverse effects on its financial performance.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Bank's risk management policies and systems are reviewed regularly to reflect changes in market conditions, emerging best practices and the products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

### RISK MANAGEMENT FRAMEWORK

The Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the following committees, which are responsible for overseeing, developing and monitoring the Bank's risk management policies in their specified areas:

- **Executive Committee:** The Executive Committee is responsible for ensuring that the Bank has an adequate and appropriate system of risk management and internal controls with the support of the Audit Committee and the Risk Committee.
- **Risk Committee:** The Risk Committee is responsible for monitoring compliance with the overall risk management policies and procedures established by the Bank and, in addition, it is also responsible for monitoring the Bank's credit portfolio.
- **Audit Committee:** The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, compliance with laws and regulations, compliance with the Bank's code of conduct and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.
- **Credit Committee:** The Credit Committee is responsible for taking credit decisions, recommending credit policies, and the future direction of the credit activities in the Bank. The Board has delegated authority to the Credit Committee to approve, sub-delegate, direct, monitor and review the Bank's financing activities, and to ensure that the credit policies are adhered to, and credit operations are conducted in the most effective manner.
- **Asset Liability Committee (ALCO):** The ALCO monitors and manages the Bank's committed and outstanding assets and liabilities, and recommends appropriate funding, investment and hedging strategies. In addition, the ALCO is also responsible for ensuring that the regulatory requirements applicable to liquidity are complied with and that the necessary liquidity required to fund the Bank's growth is available.
- **Operational Risk Committee:** The Operational Risk Committee is responsible for overseeing, managing and ensuring that all aspects of the Bank's operational risk policies and standards are effectively implemented and that the framework to monitor and report operational risk issues is functioning effectively to protect the interests of the Bank. It is also responsible for promoting a high level operational risk management culture in the Bank.

- **Management Committee:** The Management Committee is responsible for overseeing and managing the Bank's day-to-day business in accordance with the Bank's vision, mission and strategy. The Management Committee is required to consider the prevailing and future risk environment and to operate in accordance with good corporate governance principles and in line with the expectations of the Bank's significant stakeholders.

## **CREDIT RISK MANAGEMENT**

### **Introduction**

Credit risk is the risk of losses arising as a result of a counterparty of the Bank not fulfilling its contractual obligations or the quality of a counterparty deteriorating. Credit risk principally arises from the Bank's financing, trade finance and treasury activities. The Bank's overall credit exposure is evaluated on an ongoing basis to ensure a broad diversification of credit risk. Potential concentrations by country, product, industry and risk grade are regularly reviewed to avoid excessive exposure and ensure a broad diversification. The Bank's maximum on and off balance sheet exposure to credit risk, before collateral held or other credit enhancements, amounted to AED 28.3 billion at 31 December 2014 compared to AED 21.8 billion at 31 December 2013 and AED 19.1 billion at 31 December 2012. An analysis of this exposure is set out in note 27.1 to the 2014 Financial Statements and note 26.1 to the 2013 Financial Statements.

### **Credit approval process**

The Bank has separate credit approval processes for each of its different business segments.

#### ***Corporate and wholesale credit***

Applicants for business credit are required to submit detailed information to the Bank, including relevant background information as well as specific information on their management, business model, major suppliers and customers and other bank relationships and limits. In addition, the Bank typically requires audited financial statements for the last three years as well as current year financial information where available.

Credit officers within the Bank conduct a financial analysis of the applicant, propose an internal credit rating and negotiate the key terms of the proposed facility with the applicant. They also conduct screening checks such as obtaining a Central Bank Risk Bureau report and undertaking site visits. Once the credit application has been completed it is submitted to the relevant business head for review/approval. Following this review/approval, the credit application is then submitted to an independent internal review and credit rating validation.

Once this review and validation have been completed, the application is submitted to the Bank's Credit Committee for approval and, if the amount of the facility exceeds the Credit Committee's limits, it is also submitted to the Executive Committee or the Board for approval if recommended by the Credit Committee.

#### ***Personal credit***

Applications for personal credit are required to be submitted together with proof of income (such as salary certificates or bank statements for self-employed applicants), bank statements for a defined period to enable verification of outgoings for salaried applicants and income and outgoings for self-employed applicants, financial statement and business formation documents for corporate applicants, and other specific documentation depending on the type of finance applied for.

Personal finance applications are pre-screened to ensure that all relevant documentation has been included and are then subjected to a range of checks including credit reference checks, client verification checks, AML and other checks. In relation to financing secured on the asset being financed (such as auto and home financings), the Bank applies a range of finance to value limits based on various factors including the type of financing required. For credit card and other personal finance applications, the Bank applies age, minimum income, length of service or business history and financing burden limits, and also applies maximum credit and tenor limits to the financing.

#### ***General***

Every extension of credit or material change to a credit facility (such as its tenor, collateral structure or major covenants) to any counterparty (whether business or personal) requires a credit approval at the appropriate authority level.

### **Credit rating and measurement**

The Bank's risk rating system is the basis for determining the credit risk of its asset portfolio (except for its personal financing assets) and, therefore, appropriate asset pricing, the portfolio management strategy and loss provisions and reserves. The risk rating system is also the basis for credit approval authority delegation.

The Bank uses a standard numeric credit risk-grading system which is based on its internal estimate of probability of default (**PD**), with customers or portfolios assessed against a range of quantitative and qualitative factors, including taking into account the counterparty's financial position, past experience and other factors.

Performing clients are rated on a 17 point scale of NRR1 to NRR7 (with grades NRR2 through NRR6 each having plus or minus modifiers), each grade being associated with a defined level of PD.

Non-performing clients are rated NP1, NP2 and NP3, corresponding to the substandard, doubtful and loss classifications applied by the UAE Central Bank.

### **Credit monitoring**

The Bank monitors its credit exposures on a regular basis as well as any external trends which may impact risk management outcomes. Internal risk management reports, containing information on key variables, portfolio delinquency and impairment performance, are presented to the Chief Credit Officer and Risk Committee. All corporate exposures are monitored carefully for performance and reviewed formally on an annual basis or earlier. The Bank's policies mandate client visits and monitoring of accounts to make sure that any concerns on the quality of the accounts are addressed proactively.

All non-performing accounts are monitored closely by the Bank's remedial management unit, which reports directly to the Chief Credit Officer. These accounts are re-evaluated and remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement and exit of the account.

The asset quality of the Bank's personal finance portfolio is monitored closely and all 30, 60 and 90 day past due accounts and delinquency trends are monitored continuously for each product. Individual customer behaviour is also tracked and this forms an input for future financing decisions. Accounts which are past due are subject to a collection process, which is managed independently by the risk function. Write-offs and provisioning for the personal finance portfolio are carried out in accordance with UAE Central Bank guidelines.

### **Credit mitigation**

The Bank seeks to mitigate potential credit losses from any given account, customer or portfolio using a range of tools, including taking collateral or guarantees in particular. The reliance that can be placed on these credit mitigation resources is carefully assessed taking into account their legal enforceability, the market value of any collateral and the counterparty risk of any guarantor.

The Bank accepts a range of collateral types, including cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; individual, corporate and bank guarantees; and letters of credit. The Bank also collects post-dated security cheques from the individual guarantors because failure to honour a cheque is a criminal offence under UAE law. The amount and type of collateral collected mainly depends on the nature of transaction and the Bank's risk mitigation policies control the approval of different collateral types.

The Bank's credit risk policy acknowledges the role played by credit risk mitigation in the management of credit risk but emphasises that collateral on its own is not necessarily a justification for financing. The primary consideration for any financing opportunity must be the borrower's financial position and ability to repay the facility from its own resources and cash flow.

The Bank's credit risk policy and procedures ensure that credit risk mitigation techniques are acceptable, used consistently, valued appropriately and with the frequency required by the policy and meet the risk requirements of operational management for legal, practical and timely enforceability. In some instances, further advice is sought from external law firms in relation to unusual forms of security or where security is provided by foreign companies.

The main types of collateral taken are mortgages over residential, commercial and industrial property; bonds over plant and equipment and, for leases, the underlying moveable assets financed. Security

valuations are made at the time of financing and the security is revalued appropriately if there are indications that the value may have fallen over time. Guarantees and related legal contracts are often required, particularly in support of credit extended to groups of companies and weaker counterparties. Guarantor counterparties include banks, parent companies, shareholders and associated counterparties. Creditworthiness is established for the guarantor as for other counterparty credit approvals.

The Bank repossesses collateral where appropriate and this collateral is realised in accordance with its approved policy. Note 27.1(d) to the 2014 Financial Statements and note 26.1(d) to the 2013 Financial Statements provide details of the collateral taken into possession by the Bank in each of 2012, 2013 and 2014.

## **MARKET RISK MANAGEMENT**

### **Introduction**

Market risk is the potential impact of adverse price movements such as benchmark rates and foreign exchange prices on the earnings or economic value of an asset held by the Bank. The exposure to market risk can arise through investments and financing and funding contracts, and may negatively affect the earnings and capital of the Bank. The market risk unit is responsible for monitoring and reporting this risk in the Bank.

The Bank's market risk policy and asset liability management policy cover the Bank's trading book activities. In accordance with the policy, ALCO recommends market risk limits, such as foreign exchange and trading limits, which are approved by the Board. The Bank also calculates the value at risk (**VaR**) of its market risk exposures using the historical simulation method and this is reported to senior management. The Bank has established net open position limits for individual currencies, GCC currencies and the overall open position. All open currency positions are revalued on a daily basis. The Bank has also established sukuk trading limits, including portfolio limits (held for trading, available for sale and held to maturity), position limits by issuer, rating-based limits, concentration limits and stop loss limits both at an individual security and portfolio level.

The Bank's currency, money market and sukuk limits are monitored on a daily basis and exceptions are escalated to senior management immediately, with subsequent report to ALCO.

### **Profit rate risk**

The Bank's profit rate risk arises principally from the way in which movements in profit rates impact both its profit rate earning assets (such as its financing portfolios and its sukuk investments) and its profit rate bearing liabilities (principally its depositors' accounts). Note 27.3 (a) to the 2014 Financial Statements and note 26.3(a) to the 2013 Financial Statements show these assets and liabilities in different maturities and the net position as at 31 December in each of 2012, 2013 and 2014.

Note 27.3(a) to the 2014 Financial Statements also contains a sensitivity analysis showing the impact of a 1 per cent. increase or decrease in profit rates on the Bank's equity based on the assumption that all other variables will remain constant. The analysis shows that the impact would have been AED 110 million in 2014 compared to AED 98 million in 2013.

### **Foreign exchange risk**

Foreign exchange risk represents the risk of a change in the fair value of the Bank's Islamic financing instruments due to changes in foreign exchange rates. The Bank manages its exposure to the effects of fluctuations in prevailing foreign exchange rates on its financial position and cash flows through setting limits on the level of exposure by currency. Note 27.3 (b) to the 2014 Financial Statements and note 26.3(b) to the 2013 Financial Statements show the Bank's significant foreign exchange exposures at 31 December in each of 2012, 2013 and 2014.

Note 27.3(b) to the 2014 Financial Statements also contains a sensitivity analysis showing the impact of a 1 per cent. increase or decrease in foreign exchange rates on the Bank's income statement based on the assumption that all other variables will remain constant. The analysis shows that the impact would have been AED 1.9 million in 2014 compared to AED 1.6 million in 2013.

### **Price risk**

The Bank is exposed to price risk arising from publicly traded investments in Islamic sukuk classified as available-for-sale and held-for-trading in the Financial Statements.

Note 27.3(c) to the 2014 Financial Statements contains a sensitivity analysis showing the impact of a present value one basis point increase or decrease in prices on the Bank's investment portfolio based on the assumption that all other variables will remain constant. The analysis shows that the impact would have been AED 0.9 million in 2014 compared to AED 0.5 million in 2013.

## **LIQUIDITY RISK MANAGEMENT**

### **Introduction**

Liquidity risk is the risk to the Bank's earnings or capital arising from its inability to meet its obligations as they fall due. Liquidity risk can arise from a number of sources including market fluctuations and disruptions, credit downgrades or political uncertainty. A bank's ability to withstand either temporary or longer-term disruptions in its ability to fund some or all of its activities in a timely manner and at a reasonable cost depends on the adequacy of its liquidity management framework.

### **Liquidity management**

The Bank has a conservative liquidity philosophy that does not compromise liquidity in the pursuit of profitability. It seeks to ensure, so far as is possible, that it has sufficient liquidity to meet its liabilities when due, without incurring any significant losses or risking its reputation. Liquidity gap limits are defined by the Bank's liquidity management policy.

ALCO is the management committee with principal responsibility for liquidity risk management within the Bank. ALCO actively monitors and manages all of the Bank's committed and outstanding assets and liabilities and recommends appropriate funding, investment and hedging strategies. ALCO meets at least monthly and more frequently when required. The execution of ALCO's strategies and the Bank's day to day liquidity management activities, including compliance with regulatory liquidity requirements, are carried by the Treasury business group. An independent Market Risk function provides oversight of liquidity risk management activities.

### **Funding profile and strategy**

The Bank is primarily funded by customer deposits which have proven to be sticky in nature and stable over the past three years. The Bank maintains close relationships with its largest depositors to ensure this stability. The Bank aims to supplement this depositor base with longer-term funding sourced from international capital markets. The Bank's strategy to maintain and develop a diversified funding base involves:

- broadening the deposit base, in particular current and savings accounts from individuals, to fund asset growth;
- managing concentration risk amongst the top depositors through new depositor initiatives and replacing deposits with term wholesale funds, see "*Risk factors—Risks relating to the Bank and its ability to fulfil its obligations under the Transaction Documents—The Bank is subject to liquidity risk which could materially adversely affect its results of operations and, in an extreme case, could threaten its solvency*";
- maintaining a prudent liquidity position and ensuring that liabilities maturing in the short-term are adequately covered by liquid assets; and
- developing cross border institutional funding relationships.

Note 27.2 (a) to the 2014 Financial Statements and note 26.2(a) to the 2013 Financial Statements contain an analysis of the remaining contractual maturities of the Bank's financial liabilities as well as a liquidity profile of the Bank's financial assets and financial liabilities as at 31 December in each of 2012, 2013 and 2014.

## **LEGAL RISK MANAGEMENT**

Legal risk is the risk of losses occurring due to legal or regulatory action that precludes performance by the Bank or its counterparties under the terms of the Bank's contractual agreements. The Bank has an active in-house legal team which deals with both routine and more complex legal issues. The Bank aims to mitigate legal risk through the use of properly reviewed documentation and by seeking appropriate legal advice when appropriate. Situations of higher complexity and sensitivity are referred to external firms of lawyers, either in the UAE or overseas, as appropriate.

## OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of direct or indirect loss arising from inadequate or failed processes, technology and infrastructure within the Bank, and from external factors (other than credit, market and liquidity risks), such as those arising from legal and regulatory compliance requirements and generally accepted standards of corporate behaviour. The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation, assets and personnel with overall cost effectiveness. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- segregation of duties, including the independent authorisation of transactions;
- reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development of employees for operational risk awareness;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with Bank's operational risk standards is supported by a programme of periodic reviews undertaken by Internal Audit and a dedicated operational risk team. The results of their reviews are discussed with the management of the business unit to which they relate and senior management of the Bank.

The Bank has a dedicated operational risk management system (**ORMS**) to report all operational risks and losses. All risk issues are assessed and assigned risk ratings measuring their impact and probability in accordance with the ORMS risk rating matrix.

The operational risk team is also responsible for enforcing information security and technology governance matters in line with the Bank's Information Security Governance Framework. The Bank manages business continuity through its Business Continuity & Disaster Recovery Policy and has established a Crisis Management & Command Centre to deal with emergency and significant business disruption situations. In addition, to safeguard the Bank and its customers from information security breaches, the Bank has implemented an Information Securities policy and an Information Classification policy. These policies dictate standards and controls to be adopted for the acquisition, processing and disposal of information and other intangible assets in the Bank.

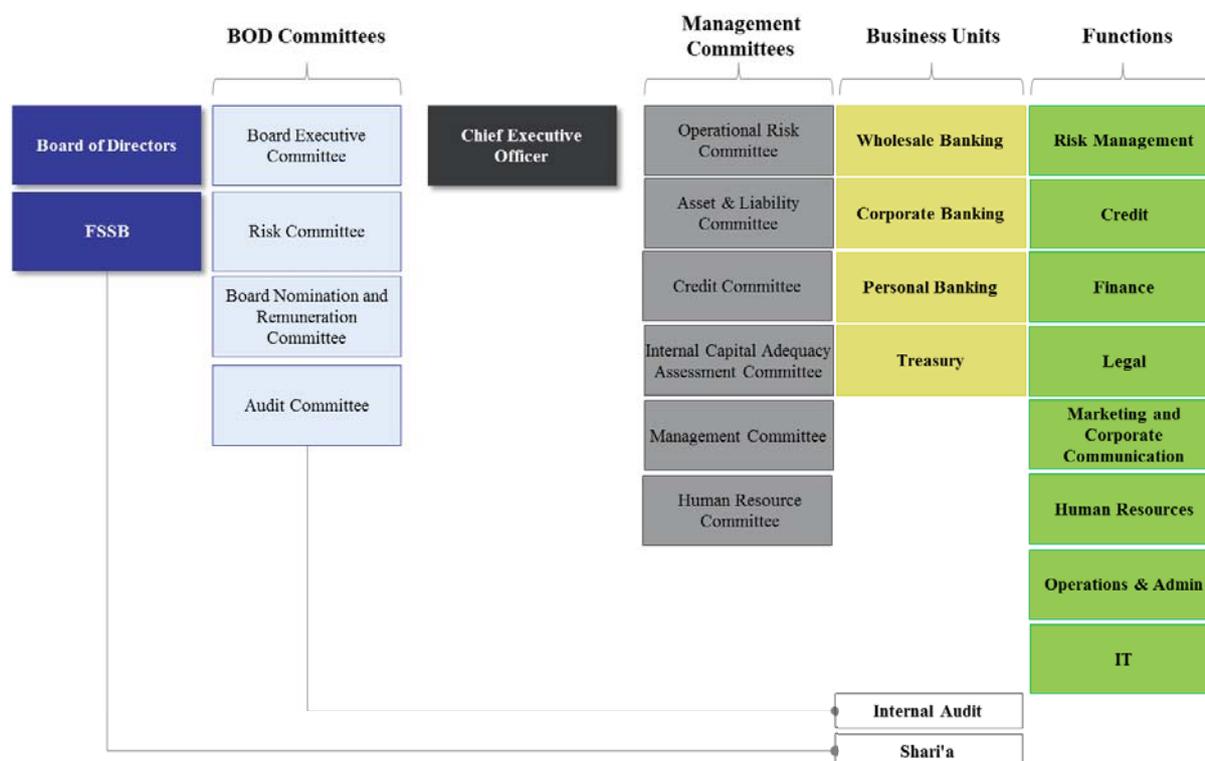
The Bank's Operational Risk Committee (**ORC**), which is chaired by the Head of Risk, ensures supervisory oversight of operational risk, information security and business continuity. The ORC convenes at least monthly to discuss existing, new and forward-looking risks, establish appropriate action plans and oversee their implementation.

## MANAGEMENT AND EMPLOYEES

### MANAGEMENT

#### Introduction

The Bank's organisational chart is as follows:



#### The Board

The management of the Bank is vested in its Board, which currently comprises nine members (the **Directors**). The Bank's first Board was appointed by the Government of Dubai in 2007 for a three-year term. Subsequently, Directors are appointed by the General Assembly of the Bank. In accordance with the Bank's Articles of Association, a majority of the Directors and the Chairman must be UAE nationals. The Board is appointed for a term of three years and members may be re-elected. The members of the current Board are listed below.

#### Director

#### Appointed

H.H. Sheikh Ahmed bin Mohammed bin Rashid Al Maktoum (Chairman)	June 2011
H.E. Lt. Gen. Musabah Rashid Al Fattan (Vice Chairman)	April 2007
H.E. Abdulla bin Mohammed Ghobash (Member)	March 2013
Essa Abdulfattah Kazim Al Mulla (Member)	April 2007 <sup>(1)</sup>
Sultan Ahmad Sultan bin Sulayem (Member)	April 2007 <sup>(1)</sup>
Mohamed Alabbar (Member)	September 2012 <sup>(2)</sup>
Soud Ahmad Abdulrahman Ba'alawy (Member)	April 2007 <sup>(1)</sup>
Abdullah Ahmed Mohamed Al Habbai (Member)	April 2007 <sup>(1)</sup>
Hussain Ahmad Dhaen AlQemzi (Member and Chief Executive Officer (CEO))	April 2007 <sup>(1)</sup>

Notes:

- (1) These individuals all agreed to become initial directors of the Bank in advance of its official establishment and subsequent launching of commercial operations.
- (2) Mohamed Alabbar was on the original board appointed by the Government of Dubai but resigned in April 2010. He re-joined the Board with effect from September 2012.

The Board met four times in 2014 and three times in 2013.

The address of each Board member is the registered office of the Bank at Building 1, Level 8, Emaar Square, Downtown Dubai, P.O. Box 8822, Dubai, UAE. There are no potential conflicts of interest between the private interests or other duties of the directors listed above and their duties to the Bank.

Set out below is summary biographical information for each Board member.

***H.H. Sheikh Ahmed bin Mohammad bin Rashid Al Maktoum (Chairman)***

H.H. Sheikh Ahmed bin Mohammad bin Rashid Al Maktoum is a member of the Dubai ruling family. He is also chairman of the Mohammed bin Rashid Al Maktoum Foundation, chairman of the UAE National Olympic Committee, chairman of the Dubai Cultural and Sports Club and chairman of the Dubai Camels Racing Club.

***H.E. Lt. Gen. Musabah Rashid Al Fattan (Vice Chairman)***

H.E. Lt. Gen. Musabah bin Rashid Al Fattan is the chairman of Al Fattan Properties, the vice-chairman of Noor Investment Group and a director of the Dubai Ruler's Office.

***H.E. Abdulla Bin Mohammed Ghobash (Member)***

H.E. Abdulla Bin Mohammed Ghobash is a Minister of State of the UAE, Chairman of the National Human Resources Employment and Development Authority (Tanmia) and a member of the DIFC Higher Board.

***Essa Abdulfattah Kazim Al Mulla (Member)***

Essa Abdulfattah Kazim Al Mulla is the governor of the DIFC, the chairman of Borse Dubai Limited, Dubai Financial Market PJSC, DIFC Authority and DIFC Investments, a member of the Higher Board of Directors of the DIFC, a director of Nasdaq Dubai Limited, The Nasdaq OMX Group INC, Etisalat, Noor Investment Group, Noor Takaful Family and Noor Takaful General, a member of the Board and Secretary General of the Dubai Islamic Economy Development Centre, a member of Dubai Economic Council, a director of Rochester Institute of Technology and a member of the Board of Governors of Hamdan Bin Mohammed E-University.

***Sultan Ahmad Sultan bin Sulayem (Member)***

Sultan Ahmad Sultan bin Sulayem is the chairman of Dubai Ports World, the Ports, Customs & Free Zone Corporation and Seven Tides and a member of the UAE Executive Council and the Dubai Economic Council.

***Mohamed Alabbar (Member)***

Mohamed Alabbar is the Chairman of Emaar Properties, Africa Middle East Resources and RSH Ltd.

***Soud Ahmad Abdulrahman Ba'alawy (Member)***

Soud Ahmad Abdulrahman Ba'alawy is a member of the Board of Noor Investment Group, Noor Takaful Family and Noor Takaful General. He is also the founder and chairman of Anwaar Majan Investment and Development LLC and a member of the Board of Advisors of Palico SAS.

***Abdullah Ahmed Mohamed Al Habbai (Member)***

Abdullah Ahmed Mohamed Al Habbai is the chief executive officer of the Engineers' Office, the group chairman of Meraas Holding, the chairman of the Industrial & Investment Lands Committee, Zabeel Investments and the Purchase and Supply Office, a member of the Sheikh Mohammed Bin Rashid Housing Program, the Dubai International Humanitarian City Board Committee and the Board of Dubai Real Estate Corporation and the general manager of Al Aryam Holding LLC.

***Hussain Ahmad Dhaen AlQemzi (Member and CEO)***

Hussain Ahmad Dhaen AlQemzi is a member of the Board and group chief executive officer of Noor Investment Group. He has over 28 years of banking experience and was the chief executive officer of Sharjah Islamic Bank prior to joining the Bank. He was also the chief operating officer at the Dubai International Financial Centre (DIFC) until 2003.

Mr AlQemzi is also a member of the Boards of Noor Takaful Family and Noor Takaful General. He is the chairman of the Awqaf and Minors Affairs Foundation, the Emirates Institute for Banking and Financial studies and Noor Awqaf, the vice-chairman of EMAAR Properties, a member of the Board of Directors of the DIFC Authority, a member of the DIFC Higher Board and a member of the

Dubai Higher Committee for the Development of Islamic Economy Sector. He has also served as a director of Dubai International Financial Exchange Limited, a Board Member of Dubai Financial Market and Bourse Dubai and as a director of NASDAQ Dubai Limited.

### **Board Committees**

The Bank has four Board committees: the Board Executive Committee, the Board Risk Committee, the Board Nomination and Remuneration Committee and the Board Audit Committee.

#### ***The Board Executive Committee***

The Board Executive Committee is responsible for reviewing all general aspects of the Bank's business, including strategic objectives and business plans, which are to be presented to the Board. The Board Executive Committee oversees the implementation of Bank's policies and Board resolutions within the scope of the powers delegated to it by the Board. The Committee oversees the Bank's overall management and ensures that business policies and practices are in line with the Bank's business interests. See also "*Risk management—Risk management framework*". The Board Executive Committee's members are Soud Ahmad Abdulrahman Ba'alawy as chairman, Hussain Ahmad Dhaen AlQemzi as vice chairman and Abdulla Ahmed Mohamed Al Habbai. The Board Executive Committee met three times in 2014 and three times in 2013.

#### ***The Board Risk Committee***

The Board Risk Committee is responsible for reviewing management's recommendations on risk including, in particular, the Bank's risk appetite, risk profile, overall enterprise risk management framework and key risk issues. The Committee is also responsible for ensuring that corporate governance standards are observed and for formulating strategy for enterprise-wide risk management and the evaluation and alignment of risk policies. See also "*Risk management—Risk management framework*". The Board Risk Committee's members are Essa Abdulfattah Kazim Al Mulla as chairman, Soud Ahmad Abdulrahman Ba'alawy as vice chairman and Hussain Ahmad Dhaen Al Qemzi. The Board Risk Committee met twice in 2014 and three times in 2013.

#### ***The Board Nomination and Remuneration Committee***

The Board Nomination and Remuneration Committee is responsible for considering matters relating to the remuneration and composition of the Board. The Committee is also responsible for the remuneration and incentives for the CEO and his direct reports, including ensuring that they are appropriate and consistent with the Bank's culture, business and risk strategy, performance and control environment as well as with any legal or regulatory requirements. The Committee also reviews strategic issues relating to human resources. The Board Nomination and Remuneration Committee's members are Mohamed Alabbar as chairman, Soud Ahmad Abdulrahman Ba'alawy as vice chairman and Essa Abdulfattah Kazim Al Mulla. The Board Nomination and Remuneration Committee met twice in 2014 and twice in 2013.

#### ***The Board Audit Committee***

The Board Audit Committee is responsible for assisting the Board in fulfilling its oversight responsibilities for financial reporting, internal control, audit process and compliance with laws and regulations. The Board Audit Committee is also responsible for reviewing the internal audit programme, considering the major findings of each internal audit review, making appropriate investigations and responses, ensuring co-ordination between the internal and external auditors and keeping under review the effectiveness of internal control systems. In particular, the committee is responsible for reviewing the external auditor's management letter and management's responses thereto. See also "*Risk management—Risk management framework*". The Board Audit Committee's members currently are Mohamed Alabbar as chairman, Sultan Ahmad Sultan bin Sulayem as vice chairman and Essa Abdulfattah Kazim Al Mulla. The Board Audit Committee met three times in 2014 and once in 2013.

## Senior management

The members of the Bank's senior management team are:

Senior management	Position	Appointed
Hussain Al Qemzi	Chief Executive Officer	1 November 2006
Dr. Ahmed Aljanahi	Deputy Chief Executive Officer and Head of Enterprise Risk and Governance	1 November 2006
Ahmed Kalim	Deputy Chief Executive Officer and Chief Operating Officer	26 November 2006
Damian White	Treasurer	9 February 2014
Saadaat Yaqub	Head of Wholesale Banking	22 August 2007
Kazim Ali	Head of Corporate Banking	20 September 2007
Mohammed Qadeer Abdullah	Acting Head of Risk	28 September 2008
Kumar Iyer	Chief Credit Officer	1 March 2015
Muhammad Irfan UIHaq	Head of Finance	25 July 2007
Omar Rahman	General Counsel	10 June 2007
Biju Nair	Head of Internal Audit & Business Risk Review	28 August 2007
Achuta Kamath	Head of Operations and Administration	15 December 2011
S.V. Padmanabhan	Chief Technology Officer	18 March 2007
Amjad Nasser	Head of <i>Shari'a</i>	21 January 2007
Abdulqader Lootah	Group Head of Public Relations	1 November 2006
Prashant Anand	Head of Compliance	14 June 2009

The address of each member of senior management is the registered office of the Bank at Building 1, Level 8, Emaar Square, Downtown Dubai, P.O. Box 8822, Dubai, UAE. There are no potential conflicts of interest between the private interests or other duties of the members of senior management listed above and their duties to the Bank.

Brief CVs for each member of the management team (other than Hussain Al Qemzi) are set out below.

### ***Dr. Ahmed Aljanahi (Deputy Chief Executive Officer and Head of Enterprise Risk and Governance)***

Dr. Aljanahi has over 30 years' experience in the banking sector, with over 15 years in Islamic banking. Prior to joining the Bank, he was the chief executive and a board member of Investors Bank, Bahrain, where he was responsible for establishing the Bank. He also has leadership experience in International Investment Group, Kuwait, Al Baraka Investment Bank, Bahrain and Bank of Bahrain and Kuwait.

Dr. Aljanahi has a Master of Business Administration (MBA) from the University of Bahrain, Bahrain and a PhD in Strategic Management from the University of Bradford, United Kingdom.

### ***Ahmed Kalim (Deputy Chief Executive Officer and Chief Operating Officer)***

Mr Kalim has over 22 years' experience in the banking sector. Prior to joining the Bank, he was the chief information officer and head of operations of Dubai Bank until 2006, where he was responsible for strategic guidance of the Bank and played a key role in establishing it. Before that, he worked with Citibank, N.A. in both the UAE and Pakistan, holding senior positions in technology, operations and quality assurance.

Mr Kalim is a graduate in Business Management from Southern Nazarene University, Oklahoma, USA.

### ***Damian White (Treasurer)***

Mr White has over 14 years' experience in treasury and funding. Prior to joining the Bank, he was group treasurer at Al Rajhi Bank, KSA and has also worked for National Australia Bank and Lehman Brothers.

Mr White has an MBA from Melbourne Business School, Australia.

### ***Saadaat Yaqub (Head of Wholesale Banking)***

Mr Yaqub has over 16 years' experience in corporate banking, relationship management, investment banking, syndication and capital markets. Prior to joining the Bank, he was the head of investment

banking at MCB Bank Limited in Pakistan with responsibilities for origination, distribution and execution of various corporate financing offering mandates.

Mr Yaqub has an MBA from the Institute of Business Administration, Karachi.

***Kazim Ali (Head of Corporate Banking)***

Mr Ali has over 25 years' experience in banking across multiple geographies in Asia. Prior to joining the Bank, he was a senior vice president of credit portfolio management at ABN AMRO Bank NV in Hong Kong and also managed corporate relationships, origination and development of the wholesale banking strategy at ABN AMRO in Pakistan.

Mr Ali has an MBA from the Institute of Business Administration, Karachi.

***Mohammed Qadeer Abdullah (Acting Head of Risk)***

Mr. Abdullah has over 20 years' experience across risk management, treasury, finance and investments. He is responsible for asset and liability management, market risk, capital adequacy and compliance in the Bank. Prior to joining the Bank, Mr Abdullah was responsible for value-based management and asset and liability management at Emirates NBD and before that he was responsible for asset and liability management and market risk at Riyad Bank.

Mr Abdullah is a qualified Financial Risk Manager from the Global Association of Risk Professionals. He has a masters degree in commerce and an MBA and a Level III candidate in the Chartered Financial Analyst Program.

***Kumar Iyer (Chief Credit Officer)***

Mr. Iyer has 25 years' experience in banking and auditing, including 18 years as a risk management professional in banks. Prior to joining the Bank, he spent 15 years with HSBC in the Middle East covering credit risk and three years with United Arab Bank handling credit and market risk. Mr. Iyer is a qualified Chartered Accountant from India.

***Muhammad Irfan UIHaq (Head of Finance)***

Mr UIHaq has over 25 years' experience in banking finance and audit. Prior to joining the Bank, he was the assistant general manager, group finance with Al Rajhi Bank, Saudi Arabia where he managed budgeting, management information systems and planning, business support and was a member of the asset and liability committee. Mr UIHaq has also worked for Citibank, N.A. and Standard Chartered Bank in Pakistan.

Mr UIHaq is a commerce graduate from the University of Karachi and a professionally qualified Chartered Accountant from the Institute of Chartered Accountants of Pakistan.

***Omar Rahman (General Counsel)***

Mr Rahman has over 18 years' experience as a solicitor and legal counsel, working for international law firms and multi-national companies. He qualified as a solicitor in the City of London with Simmons & Simmons. He moved to the UAE in 1999, working with Dentons & Co, before moving in-house as legal counsel at Western Union Financial Services Inc. in Dubai. Mr Rahman joined the Bank as General Counsel in June 2007.

Mr Rahman is a law graduate, and also has a post graduate qualification from the University of Oxford.

***Mr. Biju Nair (Head of Internal Audit & Business Risk Review)***

Mr Nair has over 18 years' experience in banking and audit. Prior to joining the Bank, he was the head of information security at Sharjah Islamic Bank and has extensive experience in information security and operational risk management products, processes and policies.

Mr Nair is an engineering graduate from the College of Engineering, Trivandrum, Kerala University.

***Achuta Kamath (Head of Operations and Administration)***

Mr Kamath has over 30 years' experience in investment banking operations and trade finance. Prior to joining the Bank, he was vice president and department manager, operations division with Union National Bank, Abu Dhabi and has also worked with ABN AMRO Bank N.V. and HSBC.

Mr Kamath is a Science and Law graduate from Mumbai University, India.

***S.V. Padmanabhan (Chief Technology Officer)***

Mr Padmanabhan has over 21 years' experience in banking and IT. Prior to joining the Bank, he was the vice president and head of India data centers at Citibank, N.A. in India. He has also worked at large IT organisations (including Wipro), supporting critical business applications.

Mr Padmanabhan is an engineering graduate from Mumbai University, India.

***Amjad Nasser (Head of Shari'a)***

Mr Nasser has over 18 years' experience in banking across customer service, relationship management, branch and retail banking. Prior to joining the Bank, he was the manager of electronic banking at Abu Dhabi Islamic Bank.

Mr Nasser is a graduate of Yarmouk University, Jordan.

***Abdulqader Lootah (Group Head of Public Relations)***

Mr Lootah has over 25 years' experience in government and public relations, armed forces, security and intelligence. Prior to joining the Bank, he was manager of government relations at Dubai International Finance Centre, where he headed all government relations and special mission activities. He was also a Major in the UAE Armed Forces, handling various portfolios in medical and health, military intelligence and security for the Ruler of Dubai.

Mr Lootah holds a Diploma in Military Sciences.

***Prashant Anand (Head of Compliance)***

Mr Anand has 18 years' experience in compliance, audit, operations and branch management, of which 12 years have been in the UAE. He joined the Bank in 2009 and, prior to joining the Bank, was the head of compliance for ICICI Bank in the UAE. He was also part of the Mashreq Bank compliance team for four years and, in India, he worked for HDFC Bank and Standard Chartered Bank.

Mr Anand has an MBA from Siber School of Management, India. He is also a certified anti-money laundering specialist, a certified compliance officer from the American Academy of Financial Management and an international anti-money laundering officer endorsed by the Chartered Institute for Securities and Investments.

**Management committees**

The Bank has six management committees: the operational risk committee, ALCO, credit committee, internal capital adequacy assessment committee, management committee and the human resource committee.

***Operational risk committee***

See "*Risk management—Risk management framework*". The members of this committee are the Head of Risk (who is also the Chairman), the Head of Operational Risk & Governance (Vice Chairman), the Head of Corporate Banking, the Head of Personal Banking, the Treasurer, the Head of Finance, the Chief Technology Officer, the Head of Human Resources, the Head of Compliance, the Head of Operations and the Head of Administration & Real Estate. This committee met 12 times in 2014 and 12 times in 2013.

***ALCO***

See "*Risk management—Risk management framework*". The voting members of this committee are the CEO, the Head of Enterprise Risk & Governance, the Chief Operating Officer, the Treasurer (who is also the Chairman), the Head of Finance (who is also the Vice Chairman), the Head of Risk, the Head of Corporate Banking, the Head of Personal Banking, the Head of Wholesale Banking and the Head of Financial Risk & Basel II (who is also the Secretary). This committee met 12 times in 2014 and 21 times in 2013.

***Credit committee***

See "*Risk management—Risk management framework*". The voting members of this committee are the Head of Enterprise Risk and Governance (who is also the Chairman), the Chief Credit Officer (who is also the Vice Chairman), the CEO, the Head of Risk and the Head of Credit – Corporate & Wholesale Banking (who is also the Secretary). The non-voting members are the business heads. This committee met 15 times in 2014 and 21 times in 2013.

### ***Internal capital adequacy assessment committee***

This committee is responsible for proposing risk appetite, reviewing and approving risk assessment methodologies, capital management and planning policy and ensure that robust stress testing and scenario analysis is undertaken. The voting members of this committee are the CEO (who is also the Chairman), the Head of Enterprise Risk and Governance (who is also the Vice Chairman), the Chief Operating Officer, the Head of Finance, the Head of Risk and the Head of Financial Risk & Basel II. This committee met twice in 2014 and three times in 2013.

### ***Management committee***

See “*Risk management—Risk management framework*”. The members of this committee include the CEO (who is also the Chairman), the Head of Enterprise Risk & Governance (who is also the Vice Chairman), the Chief Operating Officer, the Head of Risk, the Head of Finance, the business heads, the support function heads and the Head of Internal Audit and Business Risk Review. This committee is responsible for overseeing the day to day business of the Bank to attain sustained performance excellence by taking into account the prevailing and future risk environment, consistent with the Bank’s vision, mission and strategy.

### ***Human resource committee***

This committee is responsible for ensuring that key human resources policies and programmes support the Bank’s people management principles and philosophies. The members of this committee are the CEO (who is also the Chairman), the Head of Enterprise Risk and Governance, the Chief Operating Officer, the Head of Corporate Banking and the Head of Personal Banking. This committee met three times in 2014 and twice times in 2013.

### **Fatwa and Shari’a Supervisory Board**

The Bank is required by law to maintain a *Shari’a* Board. The Bank’s *Shari’a* Board, which is appointed by the Board, comprises Islamic scholars with strong reputations and with extensive experience in *Shari’a* rules and principles, economics and banking systems. The *Shari’a* Board’s responsibilities include directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with Islamic *Shari’a* rules and principles including, but not limited to, supervising the development and creation of innovative *Shari’a*-compliant products, issuing opinions on any matter proposed to it by business units of the Bank, ensuring (via *Shari’a* auditors) that transactions are carried out in compliance with *Shari’a* principles and analysing contracts and agreements concerning the Bank’s transactions.

The following table sets out the names of the current members of the *Shari’a* Board:

<b>Name</b>	<b>Position</b>	<b>Date joined</b>
Dr. Mohamed Ali Elgari	Chairman	11 January 2007
Sheikh Dr. Abdussattar Abu Ghuddah	Deputy Chairman	11 January 2007
Dr. Mohammed Daud Bakar	Member	11 January 2007
Dr. Mohammad Abdul Rahim Sultan Al Olama	Member	1 July 2008

Detailed below is brief biographical information on the members of the *Shari’a* Board:

#### ***Dr Mohamed Ali Elgari***

Dr Ali Elgari graduated from the University of California with a Ph.D in Economics and is currently Professor of Islamic Economic and Director of Islamic Economic Research at King Abdulaziz University in Jeddah. He is a member of the International Islamic Fiqh Academy and serves as an expert at the Islamic jurisprudence academies of the Organisation of Islamic countries and the Islamic World League as well as member of the *Shari’a* Council of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). He is a member of *Shari’a* Boards at Islamic banks and takaful companies across the region including those of SAAB, Standard Chartered Bank, Dow Jones Islamic Market Indices, Citi Islamic Investment Bank, Crédit Agricole CIB and SAMBA Financial Group.

#### ***Sheikh Dr. Abdussattar Abu Ghuddah***

Dr. Abu Ghuddah holds a PhD in Comparative Jurisprudence from Al-Azhar University, a Bachelors in Shari’a from Damascus University, a Bachelors of Law from Damascus University, a Masters in Shari’a from Al-Azhar University and a Masters in Al-Hadith Sciences from Al-Azhar University. Dr.

Abu Ghuddah is Chairman and General Secretary of the Unified Shari'a Board of Al-Baraka Banking Group, an expert and a former reporter of the Jurisprudence Encyclopaedia at the Kuwaiti Ministry of Awqaf & Islamic affairs, and a visiting professor at Saleh Kamel's Center for Islamic Economic Studies, Al-Azhar University.

He is also a member of the International Islamic Fiqh Academy in Jeddah, the Zakat International *Shari'a* Board, the Accounting Standards Council and the *Shari'a* Council of AAOIFI. He also serves as vice chairman of the *Shari'a* Board of Dubai Financial Market (DFM), an executive member of the *Shari'a* Board of the Central Bank of Syria, a member of the *Shari'a* Committee of the Central Bank of Bahrain, vice chairman of the *Shari'a* Board of the Abu Dhabi Islamic Bank, a member of the *Shari'a* Board of the Sharjah Islamic Bank, chairman of the *Shari'a* Board of Abu Dhabi National Takaful Co., a member of the *Shari'a* Board of Takaful Re Limited, chairman of the Al Hilal Bank *Shari'a* Board, in addition to being the chairman or a member of many other *Shari'a* boards, including those of Standard Chartered Bank, Dow Jones Islamic Market Indices, Crédit Agricole CIB, SAMBA Financial Group, Qatar Islamic Bank and Jordan Islamic Bank.

#### **Dr. Mohammed Daud Bakar**

Dr. Bakar currently sits as a chairman of the *Shari'a* Advisory Council at the Central Bank of Malaysia, the Securities Commission of Malaysia, the Labuan Financial Services Authority and the International Islamic Liquidity Management Corporation. He is also a *Shari'a* board member of various financial institutions, including the National Bank of Oman, Amundi Asset Management, Morgan Stanley, Bank of London and Middle East, BNP Paribas, Islamic Bank of Asia and Dow Jones Islamic Market Index. He is also the founder and group chairman of Amanie Advisors, a global boutique *Shari'a* advisory firm with offices located worldwide.

Prior to this; he was the deputy vice-chancellor at the International Islamic University Malaysia. He received his first degree in *Shari'a* from the University of Kuwait and obtained his PhD from the University of St. Andrews, United Kingdom. He also completed his external Bachelor of Jurisprudence at the University of Malaya. He has published a number of articles in various academic journals and has made many presentations in various conferences both local and overseas.

#### **Dr. Mohammad Abdul Rahim Sultan Al Olama**

Dr. Al Olama holds a Bachelor's degree in *Shari'a* from the Islamic University in Al Madina Al Munawwarah and a Masters and Doctorate of Jurisprudence from the University of Umm Al-Qura in Makkah Al Mukarramah. He holds many prominent positions including Expert in Islamic Jurisprudence at the Organization of the Islamic Conference, Expert in Islamic Fiqh in the Makkah-based Islamic World Association, Head of Quranic Studies and member of the Organizing Committee for Dubai International Holy Quran Award and member of Zakat Fund *Shari'a* Committee. Currently, Dr. Al Olama is an Associate Professor at the Emirates University where he teaches Islamic Studies. Dr. Al Olama is also a member of several Fatwa and Sharia boards, including those of Dubai Islamic Bank, Emirates Islamic Bank, Al Hilal Bank, Dar Al Takaful, Mawarid Finance, Islamic Banking Division of Commercial Bank of Dubai, ACR Retakaful and Al Izz Islamic Bank. Dr. Al Olama is also a member of the *Shari'a* Standards Committee of AAOIFI. He is the author of many research studies and articles on Islamic Finance matters and he has participated in many training programmes, workshops and TV shows on the subject.

## **EMPLOYEES**

As at 31 December 2014, the Bank had 551 full time staff, compared with 404 as at 31 December 2013 and 351 as at 31 December 2012.

The Bank offers its employees a range of benefits, including education allowances, furniture allowance, club allowance, air fare and medical takaful. It pays staff performance bonuses and runs staff incentive schemes, as well as paying end of service benefits.

The Bank provides a comprehensive training and development programme for all its employees. In addition to a training and induction programme for all new employees, the Bank focuses on ensuring that all employees are fully informed about and understand its products and services. The Bank offers its employees a range of training programmes to help increase both professional and personal development.

The Bank is in compliance with applicable Emiritisation requirements and its Emiritisation level was 42,6 per cent. at 31 December 2014.

## OVERVIEW OF THE UAE AND DUBAI

The UAE is a federation of seven Emirates. Formerly known as the Trucial States, the Emirates were a British protectorate until they achieved independence on 2 December 1971 and merged to form the federation of the UAE. Each Emirate – being Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al-Qaiwain, Fujairah and Ras Al Khaimah – has a local government headed by the Ruler of the relevant Emirate. There is a federal government which is headed by the President of the UAE, Sheikh Khalifa bin Zayed Al Nahyan, who is also the Ruler of Abu Dhabi. The Vice President and Prime Minister of the UAE is Sheikh Mohammed bin Rashid Al Maktoum who is also the Ruler of Dubai. The federal budget is principally funded by Abu Dhabi.

According to data published by the International Monetary Fund (IMF) in October 2014, in terms of nominal GDP, the UAE is the second-largest economy in the GCC region after Saudi Arabia. It has a more diversified economy than most of the other countries in the GCC region, approximately one third of its GDP is from the oil and gas sectors. According to data gathered by the Organisation of Petroleum Exporting Countries (OPEC), at 31 December 2013, the UAE had approximately 6.6 per cent. of the world's proven crude oil reserves (giving it the sixth largest crude oil reserves in the world), generating, according to preliminary data produced by the UAE National Bureau of Statistics and the UAE Central Bank, 38.9 per cent. of the UAE's GDP and 34.3 per cent. of the total value of the UAE's exports (including re-exports) in 2013. Based on IMF data (extracted from the World Economic Outlook (October 2014)) real GDP growth in the UAE increased by 1.6 per cent. in 2010, 4.9 per cent. in 2011 and 4.7 per cent. in 2012. Based on the same source, the IMF estimated that real GDP in the UAE increased by 5.2 per cent. in 2013 and that it would increase by 4.3 per cent. in 2014.

The UAE economy has generally grown over the last two decades, faltering only in 1998 and 2001, due to lower oil prices and the OPEC mandated production cuts, and in 2009 as a result of a significant oil price decline, the effects of the global financial crisis and the ending of the property bubble in both Dubai and Abu Dhabi. Fluctuations in energy prices do have a bearing on economic growth, but the UAE is viewed as being in a less vulnerable position than some of its GCC neighbours, due to the increasing size of its non-oil sector. The governments of Abu Dhabi and Dubai, which contribute around 80 per cent. of the UAE's GDP, are spending substantial amounts on expanding infrastructure.

On 17 August 2014, Moody's Investors Services Limited reaffirmed the UAE's long-term credit rating of Aa2 with a stable outlook. The principal reason cited for this high investment grade rating is the assumption that the obligations of the UAE Federal Government will be fully supported by Abu Dhabi. The UAE is not rated by any other rating agency.

The UAE population was estimated to have reached almost 8.3 million people in mid-2010 according to data released on 31 March 2011 by the UAE National Bureau of Statistics.

The UAE enjoys generally good relations with the other states in the GCC and its regional neighbours. The UAE does have, however, a long-standing territorial dispute with Iran over three islands in the Gulf and as such, is not immune to the political risks and volatility that have overshadowed the region, particularly in the last couple of years. The economy remains heavily protected and nearly all utilities and most major industries are controlled by the state. However, tight restrictions placed on foreign investment are gradually being relaxed. For example, foreigners are not permitted to have a controlling interest in UAE businesses and corporates. Reflecting this rule, many of the Emirates have established trade and industry free zones as a means of attracting overseas investment and diversifying the economy. Despite the UAE's membership in the World Trade Organisation (the WTO), progress towards economic liberalisation has been slow, but trade agreements with Europe and the United States are being negotiated.

### UAE CONSTITUTION

The original constitution of the UAE (the **Constitution**) was initially provisional and provided the legal framework for the UAE. The Constitution was made permanent pursuant to a constitutional amendment in December 1996.

The Constitution apportions powers between the UAE Federal Government (based in Abu Dhabi) and the governments of the constituent Emirates. The UAE Federal Government is entrusted with the task of promulgating substantive legislation concerning and regulating the principal and central aspects of the UAE. The local governments of each Emirate are authorised to regulate local matters not confined to the UAE Federal Government. Articles 120 and 121 of the Constitution specifically

state that certain matters, such as foreign affairs, security and defence and public health must be governed by federal law. All other matters not specifically assigned to the exclusive jurisdiction of the UAE Federal Government may be regulated by the local government of each Emirate.

The Constitution also states that the UAE shall form a single economic and customs entity with free movement of capital and goods between the Emirates. The natural resources and wealth in each Emirate shall be considered to be the public property of that Emirate.

### **GOVERNANCE OF THE UAE**

The governance of the UAE at the federal level is divided between the Federal Supreme Council (the **Supreme Council**), the Federal Council of Ministers (the **Cabinet**) and the Federal National Council.

The Supreme Council is the highest federal governing body and consists of the rulers of the seven Emirates. The Supreme Council elects from its own membership the President and the Vice President of the UAE (for renewable five year terms). Decisions relating to substantive matters are decided by a majority vote of five Emirates, provided that the votes of both Dubai and Abu Dhabi are included in that majority, but matters which are purely procedural are decided by a simple majority vote. The Supreme Council is vested with legislative as well as executive powers. It ratifies federal laws and decrees and sets federal policies.

The Cabinet is described in the Constitution as the executive authority of the UAE and is responsible for implementing policy decisions of the Supreme Council. The Constitution defines the responsibilities of the Cabinet, which include the issuing of regulations, the preparation of draft legislation and the drawing up of the annual federal budget.

The Federal National Council is a parliamentary body and has both a legislative and supervisory role under the Constitution. One of the main duties of the Federal National Council is to discuss the annual budget of the UAE. Although the Federal National Council can monitor and debate government policy, it has no veto or amendment power and cannot initiate any legislation itself.

### **LEGAL AND COURT SYSTEM**

There are three primary sources of law in the UAE, namely: (i) federal laws and decrees (applicable in all seven Emirates); (ii) local laws and decrees (i.e. laws and regulations enacted by the Emirates individually and which, when issued, have full legal effect and operation in such Emirate); and (iii) the *Shari'a* (Islamic law). In addition, Emiri decrees can be issued by the Rulers of each of the Emirates which, when issued, have full legal effect and operation in such Emirate. The secondary form of law is trade custom or practice. In the absence of federal legislation on areas specifically reserved to federal authority, the Ruler or local government of each Emirate can apply his or its own rules, regulations and practices.

The federal judiciary, whose independence is guaranteed under the Constitution, includes the Federal Supreme Court and Courts of First Instance. The Federal Supreme Court consists of five judges appointed by the Supreme Council. The judges decide on the constitutionality of federal laws and arbitrate on inter Emirate disputes and disputes between the UAE Federal Government and individual Emirates.

In accordance with the Constitution, three of the seven Emirates (Abu Dhabi, Dubai and Ras Al Khaimah) have elected to maintain their own court system, separate from that of the UAE and these courts have sole jurisdiction to hear cases brought in those respective Emirates.

## THE UAE BANKING SECTOR AND REGULATIONS

### SUMMARY

Within the UAE as a whole, the financial corporations sector was estimated to have contributed approximately 6.9 per cent. of real GDP in 2013, according to preliminary estimates published by the National Bureau of Statistics.

According to the UAE Central Bank, the aggregate loans and advances extended to residents and non-residents of the UAE as at 30 June 2014 were AED 1,281 billion compared to AED 1,177 billion as at 31 December 2013 and AED 1,099 billion as at 31 December 2012. Although the UAE could be viewed as an over-banked market, even by regional standards, there has traditionally been little impetus for consolidation. The UAE is a member of the WTO and accordingly greater economic liberalisation is required in the UAE. It is unclear, however, the extent to which WTO liberalisation will encourage foreign banks to expand their presence in the market. In the long-term, however, it is likely to lead to increased competition, which should spur consolidation, both within the UAE and across the region generally.

As a banking regulator, the UAE Central Bank, established in 1980, has grown in stature over the years and is the governing body that regulates and supervises all banks operating in the UAE. The UAE Central Bank monitors banks through its Banking Supervision and Examination Department. It conducts reviews of banks periodically based on the risk profile of each bank. It also reviews all of the returns submitted by the banks to the UAE Central Bank.

Historically, the UAE Central Bank has not acted as a “lender of last resort”; instead this role tends to fall on the individual Emirs of each Emirate.

### CHARACTERISTICS OF THE BANKING SYSTEM

The table below provides a statistical analysis of the UAE banking sector as at 31 December in each of 2012, 2013 and (save where indicated) 2014:

	2012	2013	2014
Total number of banks.....	51	51	49
Total number of branches <sup>(1)</sup> .....	890	928	955
Total number of employees <sup>(2)</sup> .....	36,246	36,087	36,686
Total credit facilities <sup>(3)</sup> (AED billion).....	1,102	1,217	1,382
Total deposits <sup>(4)</sup> (AED billion).....	1,168	1,279	1,414
Total assets <sup>(5)</sup> (AED billion).....	1,794	1,945	2,311

#### Notes:

(1) Excluding head offices, pay offices and electronic banking service units.

(2) Excluding auxiliary staff, at 30 September 2014.

(3) Gross figures are reported for March 2014 onwards, whereas data of the previous months are net of provisions and interest suspense. Includes credit to non-residents. At 30 September 2014.

(4) Excluding inter-bank deposits and bank drafts but including commercial prepayments. At 30 September 2014.

(5) At 30 September 2014.

Source: UAE Central Bank

### LIMITED PROGRESS TOWARDS CONSOLIDATION

The UAE may be seen as being “over-banked” with 49 different banks (comprised of 23 locally incorporated banks and 26 foreign banks) licensed to operate inside the UAE (excluding the DIFC) at 31 December 2014, serving a population estimated to be in the region of approximately 8.3 million people in mid-2010 (according to the National Bureau of Statistics). Traditionally there has been little impetus for banking sector consolidation. The federal structure of the UAE has, to some extent, encouraged the fragmented nature of the banking sector, with the individual Emirates wishing to retain their own national banks. Rivalries between large local business families and a desire not to dilute shareholdings have also hampered the process of consolidation. However, in October 2007, the UAE’s second and fourth largest banks at the time, Emirates Bank International P.J.S.C. and National Bank of Dubai P.J.S.C., merged.

In addition, in May 2011, Dubai Bank P.J.S.C. (**Dubai Bank**) was taken over by the Government of Dubai. The objective of this was to ensure the preservation of all of Dubai Bank’s depositors’ interests and the takeover was designed to ensure that Dubai Bank’s business continued uninterrupted

while options for the bank's future, whether to be run on a standalone basis or to be potentially merged with another Government of Dubai-owned bank, were assessed. In December 2012, Emirates Islamic (EI), a subsidiary of ENBD, completed its acquisition of Dubai Bank, and Dubai Bank is now a fully-owned subsidiary of EI.

The relatively small size of most UAE banks has occasionally hindered them from competing for large financing transactions in the region. It also means that they have comparatively small franchises with which to absorb capital costs, such as information technology system development. The advent of WTO liberalisation should allow greater competition from foreign banks, both from new entrants to the market and from existing players expanding their operations, which may eventually result in more mergers, with the possibility of creating banks with pan-Gulf franchises.

### **DOMESTIC FOCUS**

The UAE-incorporated banks are predominantly focused on the domestic market but a number of these banks have small operations overseas and are showing growing interest in cross-border business.

With a large number of banks competing for a limited number of wholesale lending opportunities, most banks have turned to the retail banking sector, a previously untapped market. However, increasing competition in this area is gradually eroding margins and encouraging a relaxation of lending criteria. As the market has been tested only to a limited extent under adverse conditions, it is difficult to predict the future likelihood of asset quality problems.

Expansion of retail operations has required heavy investment in distribution channels, particularly ATM networks, kiosks and telephone and internet banking services. As a consequence, information technology and premises costs have been a prominent feature of many UAE banks' expenses in addition to employee costs.

### **LIMITED FOREIGN OWNERSHIP**

In 1987, the UAE Federal Government placed a freeze on new foreign banks opening operations in the UAE. At the same time, existing foreign banks were limited to a maximum of eight branches, which restricted their ability to develop any retail potential. However, since the freeze was put in place, three banks of GCC state origin, the National Bank of Kuwait, SAMBA and Doha Bank, were awarded licences by the UAE Central Bank following an agreement to allow market access to banks of GCC state origin in line with continuing efforts in regional integration. The opening of the DIFC has enabled international banks to establish a presence and compete in the wholesale banking market and this has seen new entities entering the market place.

### **EXPOSURE TO THE OIL SECTOR**

With much of the economy directly or indirectly dependent on the oil sector, UAE banks are potentially vulnerable to business erosion during long periods of low oil prices. In particular, oil revenues tend to drive levels of liquidity and government infrastructure investment. Gradually, however, private non-oil sectors are gaining ground and the UAE economy is becoming less susceptible to oil price movements.

### **ISLAMIC BANKING**

*Shari'a* (Islamic) law forbids the charging of interest on any financial transaction. A number of banks have developed in the Islamic world to serve customers who wish to observe this principle. These institutions offer a range of products which, whilst broadly corresponding with conventional banking transactions, are structured in a way which avoids the application of interest. The UAE is home to numerous institutions offering Islamic banking and financial products. Such institutions include: the Bank, Dubai Islamic Bank, Abu Dhabi Islamic Bank, EI, Al Hilal Bank, Sharjah Islamic Bank, Ajman Bank, Dubai Islamic Insurance & Reinsurance Company (AMAN), Islamic Arab Insurance Co. (P.S.C.) (Salama), Tamweel and Amlak Finance. The number of Islamic banks continues to rise, with both new entrants to the market and existing conventional banks recasting themselves as Islamic banks. In addition, conventional financial institutions often offer *Shari'a-compliant* products.

### **SUPERVISION OF BANKS**

Banking and financial institutions established or operating in the UAE are subject to supervision and regulation by the competent federal authorities, principally the UAE Central Bank and the Securities and Commodities Authority (SCA), as well as the competent local authority in the Emirate in which

they are established or operate. The UAE Central Bank was established under Union Law No. (10) of 1980 Concerning the UAE Central Bank, the Monetary System and Organization of Banking (the **Union Law**), and the SCA was established by UAE Federal Law No. 4 of 2000.

The UAE Central Bank's primary roles are to formulate and implement banking, credit, monetary and fiscal policy and to be responsible for ensuring price and currency stability with free convertibility to foreign currencies. It is also the "bank for banks" within the UAE, although it is not the "lender of last resort". In the event of a bank experiencing financial difficulties or a solvency crisis, rescue funds—such as long-term liquidity or equity support—have historically come from the Emirate in which the institution is based. However, in the event of a run on the currency or a major banking crisis, it is likely that the Federal Government of the United Arab Emirates would ultimately stand as de facto defender of the currency and the "lender of last resort".

While the responsibility for regulating and exercising oversight of banks and financial institutions in the UAE has historically rested primarily with the UAE Central Bank, the UAE has begun to transition towards a "twin peaks" regulatory model, with the UAE Central Bank and SCA discharging different responsibilities. Under this model, the UAE Central Bank will continue to be responsible for monetary policy, macro-economic stability, systemic risk management and the licensing of local banks and branches of foreign banks operating in the UAE. In particular, the UAE Central Bank will remain the principal authority responsible for setting and supervising bank capital adequacy requirements.

The UAE Central Bank will also retain responsibility for overseeing anti-money laundering and anti-terrorism compliance by banks and financial institutions, which is currently handled through its Anti-Money Laundering and Suspicious Cases Unit which acts as the financial intelligence unit and has issued a number of detailed regulatory instructions in pursuit of anti-money laundering policies and procedures. The UAE has also established a National Anti-Money Laundering Committee, which is responsible for coordinating anti-money laundering policy.

The UAE further strengthened its legal authority to combat terrorism and terrorist financing by passing Federal Law No. 1 of 2004 on Combating Terrorism Offences, which provided for the establishment of a National Anti-Terror Committee (the **NATC**). The NATC serves as a UAE inter-agency liaison.

SCA, whose role has historically been limited to being the UAE's federal securities regulator, is expected to become increasingly active in more commercial and consumer-oriented areas previously regulated by the UAE Central Bank, including exercising oversight over financial markets and consumer protection in financial services generally, including banking services and the establishment and marketing of investment products in the UAE. SCA also has responsibility for overseeing certain day-to-day corporate law matters affecting public joint stock companies incorporated in the UAE, such as the conduct of general assembly meetings and the passing of shareholder resolutions.

Historically, income from overseas investments has been used to fund fiscal deficits, obviating the need for the UAE Central Bank to issue government debt. However, the UAE Central Bank does issue certificates of deposit (**CDs**) to the banks, denominated in both U.S. dollars and dirham, in order to absorb excess liquidity rather than to meet a specific funding need. There is presently no active secondary market in these securities, but they can be redeemed at face value at the UAE Central Bank at any time. In 2007, the UAE Central Bank introduced an auction system and allowed U.S. dollars drawings against dirham-denominated CD holdings.

The dirham is linked to the IMF's "Special Drawing Right". However, the U.S. dollar is the intervention currency and, in practice, the UAE dirham is pegged to the U.S. dollar. This pegged exchange rate has been in place since the 1980s and has proved to be resilient both to political tensions in the region and to fluctuations in oil prices.

Although the UAE Central Bank is responsible for regulating all banks, exchange houses, investment companies and other financial institutions in the UAE, the Dubai Financial Services Authority regulates all banking and financial services activities in the DIFC. The UAE Central Bank has also been growing in stature as a banking supervisor. However, it is hampered in its role by the level of legal autonomy afforded to the individual Emirates, which at times makes it difficult to enforce directives uniformly across the banking sector.

## **LACK OF DEVELOPED CAPITAL MARKETS**

The absence of mature bond or equity markets in the UAE means that banks have often shouldered the burden of long-term financing. This has tended to create a maturity mismatch in their balance

sheets, as most of their liabilities are short-term customer deposits. The two stock markets in the UAE (other than the DIFC), the Dubai Financial Market and the Abu Dhabi Securities Exchange (both of which were established in 2000), have grown rapidly in recent years, although this growth was interrupted during the global financial crisis.

During 2002, the Government of Dubai issued a decree establishing the DIFC. The DIFC, located in the Emirate of Dubai, is a free trade zone and financial services centre focusing on private banking, asset management, investment banking, re-insurance activities, Islamic finance, securities trading and back office operations. The DIFC has its own civil and commercial laws and has been granted authority to self-legislate in civil and commercial cases.

The NASDAQ Dubai (formerly known as the Dubai International Financial Exchange) is a securities exchange located in the DIFC which commenced operations on 26 September 2005. In May 2011, the DFM acquired two thirds of the shares in NASDAQ Dubai, in accordance with plans announced in December 2009 to consolidate markets. The two markets linked their platforms in July 2010, through the outsourcing by NASDAQ Dubai of its trading, clearing, settlement and custody functions for equities to DFM's systems. Responsibility for maintaining NASDAQ Dubai's Official List of securities was transferred to the Dubai Financial Services Authority with effect from 1 October 2011.

## **GOVERNMENT INVOLVEMENT**

There is a high degree of state involvement in the UAE banking sector. Most of the larger banks have some degree of government ownership. Privatisation, though advocated in principle, has been slow to happen in practice. The state is also the banking sector's largest customer, in terms of both deposits and project financing.

## **EXPATRIATE WORKFORCE**

An unusual feature of the UAE economy is its reliance on overseas labour, with expatriates making up approximately 80 per cent. of the workforce. The banking sector is no exception to this and expatriates are employed in the senior management of most of the major banks. This has brought expertise from more developed markets to the sector. However, the high level of expatriates in the UAE has been an increasing concern for the UAE Federal Government and as part of a policy of "Emiratisation" banks were instructed, in 1999, to increase UAE nationals on their payroll to 40 per cent. by 2009. Generally, banks have been moving closer to, or have met, this target, providing better training and compensation for UAE nationals.

## **ACCOUNTING STANDARDS**

Since 1 January 1999 all UAE banks have been required to prepare their financial statements in accordance with International Financial Reporting Standards (formerly International Accounting Standards (IAS)). Although this led to a substantial improvement in disclosure standards, there remains some variability in the quality and depth of disclosure across the banking sector. Basel II was introduced effective as from 1 January 2008 and aspects of Basel III are in the process of being implemented in the UAE.

## **STRUCTURE OF THE BANKING SYSTEM**

Banking institutions in the UAE fall into a number of categories, as defined by the Union Law. Domestic commercial banks, also known as "local" banks, of which there were 23 as at 31 December 2014, are required to be public shareholding companies with a minimum share capital of AED 40 million. Licensed foreign banks, of which there were 26 as at 31 December 2014, need to demonstrate that at least AED 40 million has been allocated as capital funds for their operations in the UAE. The Union Law also licenses "financial institutions" (institutions whose principal functions are to extend credit, carry out financial transactions, invest in moveable property and other activities, but which are not permitted to accept funds by way of deposits), investment banks (institutions which may accept deposits with maturities of less than two years but which may borrow from their head office or other banks and the financial markets) and financial and monetary intermediaries (money and stockbrokers).

## **RECENT TRENDS IN BANKING**

### **Profitability**

The performance of the UAE economy is influenced by oil prices, which directly affect fiscal revenues and hence determine the level of investment in government projects in the country. The high oil

prices and strong economic conditions experienced in the UAE between 2004 and 2008, and again from 2010 until mid-2014, allowed UAE banks to expand significantly.

The UAE economy was negatively impacted by the global economic crisis and, in particular, by the sharp correction in the price of oil, which has also affected a number of key economic sectors including trade, tourism, real estate and commerce. This economic slowdown, along with reduced levels of liquidity in the market, which constrained lending, resulted in the majority of UAE banks being less profitable during 2008 to 2010 than in previous years. It is possible that the significant decline in oil prices since mid-2014 could have a similar impact in 2015 if it is sustained. See “*Risk factors—Risks relating to the Bank and its ability to fulfil its obligations under the transaction documents—The UAE’s economy is highly dependent upon its oil revenue*”.

According to the IMF’s July 2014 staff report on its Article IV consultation with the UAE, a sustained decline in oil prices would reduce export earnings and fiscal revenues. Although the UAE’s substantial foreign assets and fiscal surplus would provide buffers against moderate or short-lived shocks, a large and prolonged fall in oil prices would reverse the accumulation of savings and ultimately result in lower fiscal spending. If this materialises, it could have a negative effect on the economy and could adversely affect banks through increasing customer defaults.

In addition, the IMF staff report noted that renewed global financial market volatility could increase interest costs for the Dubai government and its GREs and also identified continuing increases in real estate prices as a potential area for concern in relation to the banking sector. The report also noted that private credit growth, coupled with ample liquidity in the banking system, warranted close monitoring and that tighter macroprudential regulations to limit excessive risk taking might be necessary if credit growth accelerated significantly.

### **Liquidity**

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

Banks must also adhere to a maximum loan to deposit ratio of 100 per cent. set by the UAE Central Bank. In this context, loans comprise loans and advances to customers and interbank assets maturing after three months.

UAE banks are mostly funded through on demand or time based customer deposits made by private individuals or private sector companies. According to the UAE Central Bank’s Quarterly Banking & Monetary Statistical bulletin for September 2014, these deposits together constituted approximately 63 per cent. of total deposits of the UAE banking sector as at 30 September 2014, excluding interbank deposits and bank drafts but including commercial prepayments. According to the same source, government deposits contributed approximately 16 per cent. of total deposits as at 30 September 2014.

The UAE Central Bank issued guidelines on the implementation of the Basel III Framework (as defined below) entitled “Liquidity Regulations at Banks” in July 2012 to increase regulations on how banks in the UAE manage liquidity through the introduction of new qualitative, quantitative and reporting requirements on liquidity risk management with the objective of ensuring that their liquidity risk is well managed in the UAE and is in line with Basel Committee recommendations and international best practices. On 16 December 2012, the UAE Central Bank issued a press release in which it announced that it would postpone the 1 January 2013 implementation date of a number of provisions set out in such guidelines in order to allow further consideration of the requirements of these guidelines. In their Financial Stability Report 2013, the UAE Central Bank, indicated that they expected that they would fully implement the regulatory capital requirements of Basel III in the UAE by the end of 2018. The report also stated that the UAE Central Bank expected to issue new regulations regarding liquidity in the second half of 2014. However, no such liquidity regulations were in fact issued in 2014.

The qualitative requirements include clear articulation of liquidity risk tolerance for the relevant bank; at least one board member with a detailed understanding of liquidity risk management; incorporation of liquidity costs, benefits and risks into the product pricing and approval process; establishment of a forward-looking funding strategy to ensure effective diversification in the sources and tenor of funding; maintenance of high quality liquid assets; and development of transfer pricing framework to reflect the actual cost of funding.

The quantitative requirements include the following:

- **Liquidity Assets Ratio (LAR):** The LAR is designed to ensure that banks hold at least 10 per cent. of their liabilities in high quality liquid assets. Once implemented, the LAR is expected to remain in force for a period of time after which the Liquidity Coverage Ratio is expected to become effective;
- **Liquidity Coverage Ratio (LCR):** The LCR is taken from the Basel III Framework. It represents a 30 day stress scenario with combined assumptions covering both bank specific and market wide stresses that the bank should be able to survive using a stock of high quality assets. The LCR requires that banks should always be able to cover their net cash outflow with eligible liquid assets for a 30 day period;
- **Uses (of funds) to Stable Resources Ratio (USRR):** The USRR is an amended version of the current “Advances to Stable Resources Ratio” and represents the ratio of key uses of funds against funding sources used by banks after assignment of stability factors to these sources. This is a structural ratio that aims to prepare banks for the implementation of the Net Stable Funding Ratio (as defined below), and will ensure that banks have adequate stable funding to fund the assets on their balance sheets. After applying the relevant factors, the net uses of funds is divided by net sources of funds and the result should be less than 100 per cent.; and
- **Net Stable Funding Ratio (NSFR):** The NSFR is a structural ratio that aims to ensure that long-term assets on bank’s balance sheets are funded using a sufficient amount of stable liabilities. It also requires an amount of stable liabilities to cover a portion of the contingent liabilities.

### **Position of depositors**

There is currently no formal deposit protection scheme in the UAE. While no UAE bank has, so far, been permitted to fail, during the 1980s and early 1990s a number of banks were restructured by the relevant government authorities. In October 2008, in response to the global financial crisis, the UAE Federal Government announced that it intended to guarantee the deposits of all UAE banks and foreign banks with core operations in the UAE. Following this announcement, in May 2009 the UAE’s National Federal Council approved a draft law guaranteeing federal deposits. This law remains in draft form and, until such time as it is passed, there is no guaranteed government support of deposits with banks.

### **Prudential regulations**

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

### **Capital adequacy**

All banks are required to follow the framework of the Basel Committee on Banking Supervision (the **BCBS**) in calculating their capital adequacy ratios, as implemented by the UAE Central Bank.

### ***Basel framework***

The Basel II Accord (**Basel II**) is an international capital adequacy framework, originally issued by the BCBS in June 2004, with the objective of strengthening the soundness and stability of the international banking system and providing a baseline of capital adequacy regulation among international banks. Basel II comprises risk-based guidelines on capital adequacy requirements and regulatory standards and is a progression of the original 1988 Basel I Global Capital Adequacy Rules for Banks and Financial Institutions. Basel II is based on three “pillars”: minimum capital requirements, supervisory review process and market discipline.

- *Pillar I*  
The minimum capital requirements pillar was based on market, credit and operational risk and was designed to reduce the risk of failure by providing sufficient regulatory capital to enable continued access to financial markets for meeting the banks' liquidity needs as well as providing incentives for prudent risk management through allowing some discretion on the part of banks to utilise their own risk assessment as part of the minimum capital calculations.
- *Pillar II*  
The supervisory review pillar provided national regulators with increased tools to monitor internal bank risk control and capital assessment, and in certain instances, oblige banks to increase their regulatory capital beyond the minimum requirements under Pillar I.
- *Pillar III*  
The market discipline pillar implemented new and improved disclosure requirements with respect to capital adequacy in order to improve the effectiveness of the other two pillars.

Basel II requires banks to maintain a minimum capital adequacy ratio of 8 per cent. calculated as the percentage of total eligible regulatory capital to total risk-weighted assets for credit risks, operational risks and market risks. In July 2009, BCBS revised the Basel II Accord with respect to trading book capital and market risk framework, informally known as "Basel 2.5" in response to the initial dislocations caused by the financial crisis originating in the internal valuation and classification of re-securitisations such as collateralised debt obligations of asset-backed securities. Basel 2.5 obliged banks to implement more risk and stress-sensitive methodologies in the internal models utilised for calculating trading book and counterparty risk.

The Basel Committee has approved significant changes to Basel II, known as the Basel III Framework which was published by BCBS in December 2010 and January 2011, including new capital and liquidity standards for credit institutions, in response to the global financial crisis (the **Basel III Framework**). The Basel III Framework does not replace Basel II, rather, it implements a series of modifications to the existing regulatory structure.

The Basel III Framework increases the quantity and quality of the regulatory capital banks are required to hold. In particular, the changes refer to, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit and market exposures arising from certain assets and transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity. The most significant features of the reforms introduced by the Basel III Framework are as follows:

- *Capital base*  
Between 2013 and 2019, the common equity component of capital (known as Core Tier I) should increase from 2 per cent. of a bank's risk-weighted assets before certain regulatory deductions to 4.5 per cent. after such deductions. In addition, a new capital conservation buffer should be introduced, as well as a zero to 2.5 per cent. countercyclical capital buffer. As a result, the overall capital requirement (Tier I and Tier II) should increase from 8 per cent. at the Basel II baseline to 10.5 per cent. by 2019 with full Basel III Framework implementation.
- *Common equity*  
Common equity will continue to form the basis of Tier I capital, but other hybrid capital instruments permitted under Basel II should be replaced with instruments that are more loss absorbing and do not have incentives to redeem. Non-qualifying instruments issued on or after 12 September 2010 should be derecognised in full from 1 January 2013; certain other instruments issued prior to 12 September 2010 which qualified as Tier 1 capital under Basel II but do not so qualify under Basel III, consisting of, among other instruments, perpetual non-cumulative preference shares, should be gradually derecognised at a rate of 10 per cent. per year from 2013 to 2023.
- *Capital charges*  
Increased capital charges should be introduced with respect to re-securitisation exposures and certain liquidity commitments held in the banking book should require more capital. With respect to a bank's trading books, more robust risk assessment methodologies should be utilised to value assets and increased counterparty and market risk charges should be assessed for exposure to other financial institutions and securitised assets.

- *Leverage ratio*  
A minimum 3 per cent. leverage ratio, measured against a bank's gross (and not risk-weighted) balance sheet, should be adopted on a trial basis until 2018 and definitively adopted in 2019.
- *Liquidity standards*  
A "liquidity coverage ratio" requiring high quality liquid assets to equal or exceed certain cash outflows is expected to be adopted from 2015, thereby ensuring that a bank has sufficient high quality liquid assets to survive a one-month period of market stress. In addition, a "net stable funding ratio" requiring "available" stable funding sources to equal or exceed "required" stable funding should be adopted from 2018, thereby ensuring that a bank has access to capital or high quality funding to survive a one-year period of market stress.

## **UAE**

Since 1993, the UAE Central Bank has imposed a 10 per cent. minimum total capital ratio. In a circular dated 30 August 2009, the UAE Central Bank announced amendments to its capital adequacy requirements stating that UAE banks were required to have total capital adequacy ratios of at least 11 per cent., with a Tier 1 ratio of not less than 7 per cent., by 30 September 2009 and at least 12 per cent., with a Tier 1 ratio of not less than 8 per cent., by 30 June 2010. The circular stated that the new requirements, which were effective on 31 August 2009, apply to national and foreign banks. As at the date of this Base Prospectus, no further developments have been announced. Profits for the current period, goodwill, other intangibles, unrealised gains on investments and any shortfall in loan loss provisions are deducted from regulatory capital.

Whilst the calculation of capital adequacy ratios in the UAE follows the BCBS guidelines, claims on or guaranteed by GCC central governments and UAE central banks are risk-weighted at zero per cent.; claims on GCC government non-commercial public sector entities are risk-weighted at 50 per cent.; and GCC sovereign debt is risk-weighted at zero per cent.

All UAE banks were required to implement the standardised approach for credit risk proposed under the Basel II Accord by 31 December 2007 and were required to be internal risk-based compliant for credit risk by 1 January 2011.

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

The UAE Central Bank issued guidelines on the implementation of the Basel III Framework in July 2012 under the heading "Liquidity Regulations at Banks" (see "—Liquidity" for further details). Since then, the UAE Central Bank has been preparing local institutions for the implementation of the Basel III standards.

### **Reserve requirements**

Reserve requirements are used by the UAE Central Bank as a means of prudential supervision and to control credit expansion. The reserve requirements are 1 per cent. for term deposits and 14 per cent. for all other customer balances.

### **Large exposures**

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

The UAE Central Bank defines large exposures as any funded or unfunded on-or-off balance sheet exposure to a single borrower or group of related borrowers exceeding a prescribed set of limits. Exposures above these prescribed limits are subject to UAE Central Bank approval.

On 17 November 2013, the UAE Central Bank published a circular (the **2013 Large Exposures Limits Circular**) amending certain large exposure limits. Large exposures are defined as a percentage of the bank's capital base calculated under Basel II. The 2013 Large Exposure Limits Circular was effective as of the date that was one month from the date of its publication in the official gazette. UAE banks are required to implement the 2013 Large Exposures Limits Circular within five years of its effective

date. UAE banks are also required to submit a comprehensive plan to comply with the 2013 Large Exposure Limits Circular within three months of its publication.

Set out below is a table showing a summary of the changes introduced by the 2013 Large Exposure Limits Circular:

	New Limit		Old Limit	
	Individual	Aggregate	Individual	Aggregate
	(%)			
UAE Federal Government and their non-commercial entities .....	N/A	N/A	Exempt	Exempt
UAE local Government.....	N/A	100	Exempt	Exempt
UAE local Government non-commercial entities .	25	100	Exempt	Exempt
Commercial entities of federal government and UAE local governments .....	25	100	25	None
Single borrowers or a group of related borrowers	25	N/A	7	N/A
Shareholders who own 5 per cent. or more of the bank's capital and related entities .....	20	50	7	None
Exposure to bank's subsidiaries and affiliates.....	10	25	20	60
Board members.....	5	25	5	25

*In addition, the following lending limits also apply:*

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

In February 2011, the UAE Central Bank issued new regulations in relation to the retail banking sector, aimed at controlling lending activities and excessive charges by banks, whilst also protecting banks by regulating lending and encouraging banks to carry out proper due diligence on potential borrowers. In addition, new regulations governing personal loans and financing advances was brought into effect on 1 May 2011. These regulations cap personal loans and financing advances at 20 times a borrower's monthly salary and stipulate repayment of such personal financing within 48 months.

UAE Central Bank notice no. 31/2013 was published in the UAE official gazette on 28 November 2013 and entered into force on 28 December 2013. Notice no. 31/2013 (which supersedes Central Bank notice no. 3871/2012) specifies that the amount of mortgage loans for non-UAE nationals should not exceed 75 per cent. of the property value for the purchase of a first home with a value of less than or equal to AED 5 million and, for the purchase of a first home with a value greater than AED 5 million, the amount of mortgage loans should not exceed 65 per cent. of the property value. For purchases of second and subsequent homes, the limit for non-UAE nationals is set at 60 per cent. of the property value (irrespective of the value of the property in question). The corresponding limits for UAE nationals are set at 80 per cent. in respect of the purchase of a first home with a value less than or equal to AED 5 million, 70 per cent. for a first home with a value greater than AED 5 million and 65 per cent. of the property value for a second or subsequent home purchase (irrespective of the value of the property).

#### **Provisions for loan losses**

The UAE Central Bank stipulates that non-performing credits should be classified as either substandard, doubtful or loss depending on the likelihood of recovery, with provisions charged at a minimum of 25 per cent., 50 per cent. and 100 per cent., respectively for retail accounts between 90 and 180 days past due and for corporate accounts after the exercising of mature judgement. Any loans with either interest or principal in arrears by more than 90 days must be placed on a non-accrual basis and classified as non-performing. In practice, several banks operate more stringent policies and place loans on a nonaccrual basis as soon as their recovery is in doubt.

In November 2010, the UAE Central Bank published a new set of rules making it mandatory for banks and financial institutions to make provisions for their impaired loans on a quarterly basis

(banks had previously written-off non-performing/impaired loans from their books after all legal options for recovery had been exhausted). The new guidelines also prescribe specific provisions for three categories of impaired loans and stipulate that lenders should build up general provisions equal to 1.5 per cent. of customer credit risk-weighted assets over a period of four years through to December 2014 and are intended to improve transparency within the banking industry in accordance with Basel Committee standards.

Banks in the UAE generally do not write off non-performing loans from their books until all legal avenues of recovery have been exhausted. This factor tends to inflate the level of impaired loans carried on the balance sheets of UAE banks when compared to banks operating in other economies.

#### **Federal debt management**

In December 2010, the Council approved a draft federal law on public debt (the **Public Debt Law**) under which the total value of UAE's public debt should not be more than 25 per cent. of its GDP or AED 200 billion, whichever is lower at the time of issuing public debt. The Public Debt Law is awaiting the approval of the President of the UAE and is therefore yet to be enacted. The Public Debt Law could therefore change before it is enacted.

#### **UAE credit bureau**

Al Etihad Credit Bureau (**AECB**) is a federal government organisation that collects credit data, information and financial commitments from banks and financial institutions to provide accurate credit reports to individuals, financial institutions and companies in the UAE. AECB was established by the UAE Federal Government in February 2012.

## SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

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

### **Master Purchase Agreement**

The Master Purchase Agreement will be entered into on 14 April 2015 between Noor Sukuk Company Ltd. (in its capacities as Trustee and as Purchaser) and the Bank (in its capacity as Seller) and will be governed by the laws of Dubai and, to the extent applicable in Dubai, the federal laws of the UAE. A Supplemental Purchase Contract between the same parties will be entered into on the Issue Date of each Series and will also be governed by the laws of Dubai and, to the extent applicable in Dubai, the federal laws of the UAE (the Master Purchase Agreement as supplemented by the relevant Supplemental Purchase Contract for each Series, the **Purchase Agreement**).

Pursuant to the Purchase Agreement, the Seller will sell, transfer and assign to the Purchaser, and the Purchaser will purchase and accept the transfer and assignment from the Seller, of the Initial Wakala Portfolio together with all of the Seller's rights, title, interests, benefits and entitlements in, to and under the Wakala Assets comprising the Initial Wakala Portfolio for an amount equal to the Issue Proceeds (the **Purchase Price**), which will be payable on the Issue Date of the relevant Series. The Wakala Assets the subject of the Purchase Agreement will consist of Self-Use Assets, Ijara Finance Assets, Other Tangible Assets and Other Intangible Assets. The details of the Initial Wakala Portfolio purchased pursuant to the Purchase Agreement will be set out in the schedule to the relevant Supplemental Purchase Contract.

The proportion of the Purchase Price payable in respect of each such Self-Use Asset, Ijara Finance Asset, Other Tangible Asset and Other Intangible Asset shall be an amount in the Specified Currency equal to the Value of such asset.

For the purposes of the Purchase Agreement, the **Value** in respect of any Wakala Asset means the amount in the Specified Currency of the relevant Series (following conversion, if necessary, of any relevant amount(s) at the applicable Wakala Exchange Rate) determined by the Seller on the relevant date as being equal to, in respect of:

- (i) Self-Use Assets, the initial value of any such Self-Use Asset at the time that it first became part of the Wakala Portfolio (as determined by the Servicing Agent on the basis of the market value of such asset at such time and, where relevant, as set out in the Lease Agreement or the relevant substitution request or substitution notice, as applicable);
- (ii) Ijara Finance Assets, which are (i) leased on the Ijara Muntahiah Bittamleek (finance lease) basis, the aggregate of all outstanding fixed rental instalments payable by the lessee or other equivalent fixed instalment amounts payable by the obligor in the nature of capital or principal payments in respect of the relevant asset and (ii) not leased on the Ijara Muntahiah Bittamleek (finance lease) basis, the initial agreed value or the outstanding base amounts payable by the lessee or other equivalent fixed instalment amounts payable by the obligor in the nature of capital or principal payments in respect of the relevant asset;
- (iii) Other Tangible Assets having associated with them underlying tangible assets including tradable sukuk, the outstanding capital or investment amounts; and
- (iv) Intangible Assets, the aggregate of the outstanding amounts payable in respect of such Intangible Asset, provided that for the purposes of: (A) the consideration payable in connection with (x) the purchase of the Initial Wakala Portfolio and each Intangible Asset subsequently originated and comprising part of the Wakala Portfolio from time to time, (y) the substitution of any Intangible Asset in accordance with the Master Purchase Agreement or the Service Agency Agreement and (z) the sale and purchase or (as applicable) assignment, transfer and/or conveyance of any Intangible Asset pursuant to the Purchase Undertaking or (as applicable) the Sale Undertaking; and (B) any representations and warranties given in respect of the Value of an Intangible Asset and the requirement to maintain the Value of the Wakala Portfolio from time to time, in each case of (A) and (B) in accordance with the applicable provisions of the relevant Transaction Documents, the Value shall mean the aggregate of the outstanding amounts payable in respect of such Intangible Asset in the nature of capital or principal payments.

The Seller will provide limited representations and warranties to the Trustee (as Purchaser) on the date of the Master Purchase Agreement, including in respect of its power to enter into the transactions contemplated by the Master Purchase Agreement. In addition, on each Issue Date, the Seller will represent and warrant to the Trustee (as Purchaser) that:

- (a) each Wakala Asset, immediately prior to its sale, assignment and/or transfer, as applicable, to the Purchaser, is owned by the Seller free and clear of any adverse claim (subject to certain limited exceptions) and upon the payment by or on behalf of the Purchaser of the Purchase Price therefor, the Purchaser will acquire such Wakala Asset, together with all the rights, title, interests, benefits and entitlements in, to and under such Wakala Asset, free and clear of any adverse claim (subject as aforesaid);
- (b) that each Wakala Asset is an Eligible Wakala Asset;
- (c) the Value of each Wakala Asset ascribed by the Seller is true, accurate and correct as at such date; and
- (d) that each Wakala Asset complies in all material respects with *Shari'a* principles as laid down by the Bank's *Fatwa* and *Shari'a* Supervisory Board.

If the Seller is in breach of any of the representations and warranties listed above, it shall be required to substitute the Wakala Asset(s) in respect of which the representations and warranties are inaccurate for new Wakala Assets in respect of which the representations and warranties can be given whereupon the Seller shall be required to deliver a substitution instruction to the Purchaser in respect of such Wakala Assets and upon delivery thereof the Trustee shall be deemed to exercise its right under the Purchase Undertaking to require the substitution of such Wakala Assets with new Wakala Assets in respect of which such representations and warranties can be given by the Seller, subject to and in accordance with the Purchase Agreement and the Purchase Undertaking.

For these purposes:

**applicable Wakala Exchange Rate** means, in the case of any amount paid or payable in respect, or any face amount, principal amount or par value, of a Wakala Asset that is in a currency (the **Wakala Currency**) other than the Specified Currency, the spot rate of exchange at which the Seller is able to purchase the Specified Currency with such amount of the Wakala Currency on the date on which the Wakala Currency is required to be exchanged into the Specified Currency in accordance with the Master Purchase Agreement (or if it is not practicable to make such purchase on such date, on the immediately preceding date on which it is so practicable), without taking into account any premium or other costs of exchange; and

**Eligible Wakala Asset** means a Self-Use Asset, an Ijara Finance Asset, an Other Tangible Asset or an Other Intangible Asset:

- (i) in respect of which the lessee in respect of the related Ijara Contract or other obligor in the case of any other income generating Wakala Asset is not in breach of its payment obligations in respect of the relevant income generating Wakala Asset;
- (ii) which has been originated or is held or owned by the Seller in a manner consistent with its usual credit and origination and/or investment policies;
- (iii) which constitutes legal, valid, binding and (subject to the laws of bankruptcy and other laws affecting the rights of creditors generally) enforceable obligations of the relevant obligor in the jurisdiction in which it is located and the jurisdiction in which any related asset is located;
- (iv) in respect of which the Seller or the Servicing Agent (as applicable) is entitled to receive all payments due or proceeds of sale (as the case may be);
- (v) which is free and clear of any adverse claim (subject to certain limited exceptions); and
- (vi) which is capable of being sold, assigned and/or transferred, as applicable, by the Seller to the Purchaser in accordance with the terms set out in the Purchase Agreement or (as applicable) capable of being acquired and/or originated by the Servicing Agent in accordance with the terms set out in the Service Agency Agreement,

provided that, in the case of a Self-Use Asset, only paragraph (vi) shall be deemed to apply.

#### ***Service Agency Agreement***

The Service Agency Agreement will be entered into on 14 April 2015 between the Trustee and the Bank (in its capacity as Servicing Agent) and will be governed by English law.

Pursuant to the Service Agency Agreement, the Trustee will appoint the Servicing Agent to provide certain services in respect of the Wakala Portfolio relating to each Series. In particular, the Servicing Agent, in relation to each Series:

- (i) shall manage the Wakala Portfolio in accordance with the investment plan for such Series which shall be in the form set out in the schedule to the Service Agency Agreement and scheduled to the relevant Supplemental Purchase Contract (the **Wakala Investment Plan**, which will include an expected return to be generated by the Wakala Portfolio on a periodic basis (the **Expected Wakala Portfolio Return**);
- (ii) it shall ensure that, on the Issue Date of a Series (but not necessarily thereafter) at least 51 per cent. of the Wakala Portfolio Value on such Issue Date, is derived from Tangible Assets
- (iii) shall use all reasonable endeavours to procure that, at all times after the Issue Date, at least 33 per cent. of the Wakala Portfolio Value is derived from Tangible Assets (the **Minimum Tangible Assets Requirements**) and if, at any time, the Minimum Tangible Assets Requirement is not satisfied, the Servicing Agent shall use all reasonable endeavours to acquire as soon as reasonably practicable thereafter (and in any event, within six months from becoming aware of the Minimum Tangible Assets Requirement not being satisfied) (whether through the substitution, in accordance with the Service Agency Agreement and the Purchase Undertaking, of Intangible Assets for Tangible Assets or the acquisition, for and on behalf of the Trustee pursuant to paragraph (v) below, of further Tangible Assets through the utilisation of Wakala Portfolio Principal Revenues) sufficient Tangible Assets to satisfy the Minimum Tangible Assets Requirement;
- (iv) shall use all reasonable endeavours to manage the Wakala Portfolio to ensure that the Wakala Portfolio Value is at all times not less than the aggregate outstanding face amount of the Certificates for the relevant Series;
- (v) shall use all reasonable endeavours to invest (for and on behalf of the Trustee) all Wakala Portfolio Principal Revenues standing to the credit of the Wakala Principal Collection Account in additional Eligible Wakala Assets and, to the extent that Eligible Wakala Assets are not available, to hold or invest the cash sums representing such Wakala Portfolio Principal Revenues in principal protected *Shari'a* compliant investments including investment deposits until Eligible Wakala Assets become available. Such further Eligible Wakala Assets so acquired or originated shall form part of the Wakala Portfolio, subject to: (i) the Value of such further Eligible Wakala Assets being (A) in the case of Tangible Assets (or a portfolio of Wakala Assets which comprise, by Value, not less than 51 per cent. Tangible Assets), not less than and (B) in the case of Intangible Assets, equal to, the consideration given as the purchase price of or the amounts otherwise applied in the acquisition of such assets; (ii) in any case where the further Eligible Wakala Assets comprise Intangible Assets, the Servicing Agent shall be obliged to originate new Intangible Assets; and (iii) such further Eligible Wakala Assets being Eligible Wakala Assets in respect of which the Servicing Agent shall represent and warrant on the date of such acquisition or origination (as the case may be) as follows:
  - (a) that each Eligible Wakala Asset being acquired, immediately prior to its acquisition, by the Servicing Agent on behalf of the Trustee, is owned by the Bank free and clear of any adverse claim (subject to certain limited exceptions) and upon the utilisation of Wakala Portfolio Principal Revenues in respect thereof, the Servicing Agent will, on behalf of the Trustee, acquire such Eligible Wakala Asset, together with all the rights, title, interests, benefits and entitlements in, to and under such Eligible Wakala Asset, free and clear of any adverse claim (subject as aforesaid);
  - (b) that each Wakala Asset in which Wakala Portfolio Principal Revenues are being reinvested is an Eligible Wakala Asset;
  - (c) the Value of each Eligible Wakala Asset ascribed by the Servicing Agent is true, accurate and correct as of such date;
  - (d) that it has the power and capacity to originate new Eligible Wakala Assets or (as applicable) to acquire the applicable Eligible Wakala Assets in the manner specified by the Service Agency Agreement; and
  - (e) that each such Eligible Wakala Asset complies in all material respects with *Shari'a* principles as laid down by the Bank's *Fatwa* and *Shari'a* Supervisory Board,

it being acknowledged and agreed by the Servicing Agent that such acquisition of such Eligible Wakala Assets is conditional upon it being able to make the representations and warranties in accordance with this paragraph (iv);

- (vi) shall carry out all Major Maintenance and Structural Repair in respect of the Self-Use Assets on account and on behalf of the Trustee and in so doing the Servicing Agent shall:
  - (a) ensure that records are kept of all Major Maintenance and Structural Repair activities;
  - (b) conduct periodic inspection of the Self-Use Assets and ensure that Major Maintenance and Structural Repair is carried out with the appropriate quality of materials and workmanship; and
  - (c) ensure that Major Maintenance and Structural Repair is carried out by qualified persons and in accordance with all applicable regulations and law,

in each case, in accordance with good maintenance practice expected from a prudent person carrying on business and operations similar to that of the Servicing Agent on an arm's length basis and in order to maintain the value of the Self-Use Assets;

- (vii) (for so long as the Trustee remains the owner of the Self-Use Assets in its name and on behalf of the Certificateholders) shall pay, on behalf of the Trustee, all Proprietorship Taxes (if any) charged, levied or claimed in respect of the Self-Use Assets by any relevant taxing authority and promptly provide to the Trustee appropriate receipts or certificates from the relevant taxing authority for the full amount of all Proprietorship Taxes paid by it;
- (viii) shall do all acts and things (including execution of such documents, issue of notices and commencement of any proceedings) that it considers reasonably necessary to ensure the assumption of, and compliance by each Wakala Asset obligor with its covenants, undertakings or other obligations in respect of the Wakala Assets in accordance with the relevant contractual terms;
- (ix) shall discharge or procure the discharge of all obligations to be discharged by the Bank (in whatever capacity) in respect of any of the Wakala Assets under all related contracts, it being acknowledged that the Servicing Agent may appoint one or more agents to discharge these obligations on its behalf;
- (x) shall pay on behalf of the Trustee any actual costs, expenses, losses and taxes which would otherwise be payable by the Trustee as a result of the Trustee's ownership of the Wakala Portfolio. Such actual costs, expenses and losses shall be reimbursed in accordance with the Service Agency Agreement;
- (xi) shall use all reasonable endeavours to ensure the timely receipt of all Wakala Portfolio Revenues, investigate non-payment of Wakala Portfolio Revenues and generally make all reasonable endeavours to collect or enforce the collection of such Wakala Portfolio Revenues under all related contracts as and when the same shall become due;
- (xii) shall use all reasonable endeavours to ensure that the Wakala Portfolio Income Revenues are at least equal to the Expected Wakala Portfolio Return (together with any additional amounts to be paid pursuant to the Service Agency Agreement), provided that such Expected Wakala Portfolio Return shall be reduced from time to time upon any redemption and/or cancellation of any of the Certificates of the relevant Series in accordance with the Conditions such that the Expected Wakala Portfolio Return shall be determined by reference to the then outstanding Certificates of such Series;
- (xiii) shall maintain the Collection Accounts in accordance with the terms of the Service Agency Agreement;
- (xiv) shall obtain all necessary authorisations in connection with any of the Wakala Assets and its obligations under or in connection with the Service Agency Agreement;
- (xv) (subject as otherwise provided in the Service Agency Agreement), shall (i) as soon as reasonably practicable, accurately amend the Schedule of Leased Assets upon any Self-Use Asset being added to the Wakala Portfolio or any Leased Asset being removed from the Wakala Portfolio, in each case in accordance with the Purchase Undertaking, the Sale Undertaking and/or the Service Agency Agreement (as applicable); and (ii) as soon as reasonably practicable after each occasion on which a Self-Use Asset is added to the Wakala Portfolio, (on behalf of the Trustee

acting in its capacity as Lessor) execute an Addendum to the relevant Supplemental Lease Contract setting out the particulars of such Self-Use Asset and thereafter forward a copy of the same to the Delegate;

- (xvi) if at any time the Bank proposes to add any one or more Self-Use Assets to the Wakala Portfolio either (i) in substitution for all of the existing Leased Assets at that time; or (ii) at a time when there are no Leased Assets, shall procure that the lessor and the lessee enter into a Supplemental Lease Contract and thereafter forward a copy of the same to the Delegate;
- (xvii) (on behalf of the Trustee acting in its capacity as Lessor) shall determine and/or notify the lessee of all Rental under and in accordance with the terms of the Lease Agreement;
- (xviii) may provide (or may procure the provision of, as applicable) a Liquidity Facility in the circumstances and on the terms described below; and
- (xix) will carry out any incidental matters relating to any of the above.

In relation to each Wakala Portfolio, the Servicing Agent will (on behalf of the Trustee):

- (a) ensure that the Self-Use Assets are insured, and shall effect such insurances in respect of the Self-Use Assets (the **Insurances**) including against a Total Loss Event. The Servicing Agent undertakes to ensure that the insured amount relating to a Total Loss Event, will, at all times, be at least equal to the Full Reinstatement Value;
- (b) promptly make a claim in respect of each loss relating to the Self-Use Assets in accordance with the terms of the Insurances; and
- (c) ensure that in the event of a Total Loss Event occurring all the proceeds of the Insurances against a Total Loss Event are in an amount equal to the Full Reinstatement Value and are credited in the Specified Currency to the Wakala Principal Collection Account by no later than the 30th day after the occurrence of the Total Loss Event.

If the Servicing Agent fails to comply with the above provisions and as a result of such breach the amount (if any) credited to the Wakala Principal Collection Account pursuant to the Service Agency Agreement is less than the Full Reinstatement Value (the difference between such Full Reinstatement Value and the amount credited to the Wakala Principal Collection Account being the **Total Loss Shortfall Amount**), then the Servicing Agent (unless it proves beyond any doubt that any shortfall in the insurance proceeds is not attributable to its negligence or its failing to comply with the terms of the Service Agency Agreement relating to insurance) irrevocably and unconditionally undertakes to credit (in the same day, freely transferable, cleared funds) the Total Loss Shortfall Amount directly to the Wakala Principal Collection Account by no later than close of business on the 31st day after the Total Loss Event has occurred. Thereafter, and subject to the Servicing Agent's strict compliance with the Service Agency Agreement, any insurance proceeds received from such insurer shall be for the Servicing Agent's sole account and the Trustee shall have no further rights against the Servicing Agent in respect of its breach. Any such breach will not however constitute an Obligor Event.

Wherever the Servicing Agent procures Insurances in accordance with the terms of the Servicing Agency Agreement (including the renewal of any Insurances in existence on the Issue Date) it will use its reasonable endeavours to obtain such Insurances on a *takaful* basis if such *takaful* insurance is available on commercially viable terms. A breach of this requirement will not, however, constitute an Obligor Event.

In relation to each Series, the Servicing Agent shall keep and maintain all documents, books, records and other information reasonably necessary or advisable for the collection of all amounts due in respect of the Wakala Assets.

The Servicing Agent shall perform its duties under the Service Agency Agreement in accordance with all applicable laws and regulations, with the degree of skill and care that it would exercise in respect of its own assets and in a manner that complies in all material respects with the *Shari'a* principles laid down by the Bank's *Fatwa* and *Shari'a* Supervisory Board.

The Bank shall be entitled to receive a fee for acting as Servicing Agent which will comprise a fixed fee of U.S.\$100 and may also receive incentive payments as described below. In addition, the Servicing Agent shall be entitled to be reimbursed in respect of any Service Agency Liabilities Amounts.

In the Service Agency Agreement, the Trustee and the Servicing Agent agree that (a) (provided that no Dissolution Event has occurred and is continuing): the Bank may at any time and (b) (whether or not a Dissolution Event has occurred or is continuing) upon becoming aware of any default or

potential default (howsoever described) in respect of any Wakala Asset, the Servicing Agent shall use its best endeavours to substitute on the applicable Substitution Date any one or more Wakala Assets (the **Substituted Wakala Assets**) as the Servicing Agent may in its absolute discretion select (subject to any Wakala Asset(s) to be substituted being the Wakala Asset(s) in respect of which a default or potential default (howsoever described) has occurred, if applicable) by delivering to the Trustee a substitution instruction in accordance with the Service Agency Agreement whereupon the Trustee shall be deemed to have exercised its right under the Purchase Undertaking. The substitute Wakala Asset(s) for these purposes (the **New Wakala Assets**) shall be Eligible Wakala Asset(s) of a Value not less than the value of the consideration paid for the Substituted Wakala Assets when they first became part of the Wakala Portfolio after deduction of all Wakala Portfolio Principal Revenues relating to such Substituted Wakala Assets which have been credited to the Wakala Principal Collection Account in accordance with the Service Agency Agreement, and provided further that the New Wakala Assets comprise, by Value, not less than 51 per cent. Tangible Assets. In addition, the Servicing Agent shall represent and warrant on the date on which the relevant substitution is effected that:

- (i) the New Wakala Assets, immediately prior to their assignment, transfer and/or conveyance (as applicable) in accordance with the Purchase Undertaking, are owned by the Bank free and clear of any adverse claim (subject to certain limited exceptions) and upon the assignment, transfer and/or conveyance (as applicable) of the applicable Substituted Wakala Assets therefor the Trustee will acquire such New Wakala Assets, together with all the rights, title, interests, benefits and entitlements in, to and under such New Wakala Asset, free and clear of any adverse claim (subject as aforesaid) pursuant to the provisions of the Purchase Undertaking;
- (ii) each New Wakala Asset is an Eligible Wakala Asset;
- (iii) the Value of each New Wakala Asset ascribed by the Servicing Agent is true, accurate and correct as of such date; and
- (iv) each New Wakala Asset complies in all material respects with *Shari'a* principles as laid down by the Bank's *Fatwa* and *Shari'a* Supervisory Board,

and any such substitution shall otherwise be undertaken on the terms and subject to the conditions of the Service Agency Agreement and the Purchase Undertaking.

The Servicing Agent will maintain, in relation to each Series, three separate book-entry ledger accounts (referred to as the **Wakala Principal Collection Account**, the **Wakala Income Collection Account** and the **Wakala Income Reserve Collection Account**, respectively, and, together, the "**Collection Accounts**") in which all revenues from the Wakala Assets (the "**Wakala Portfolio Revenues**") will be recorded.

All Wakala Portfolio Revenues relating to a Series in the nature of capital or principal payments in respect of the relevant Wakala Assets (which, in the case of any Murabaha Receivable, means all amounts received in respect of that Murabaha Receivable, including any proceeds from its assignment or transfer, to the extent such amounts correspond to the Value of the Murabaha Receivable other than any Murabaha profit) (the **Wakala Portfolio Principal Revenues**), shall be credited to the applicable Wakala Principal Collection Account and reinvested by the Servicing Agent in acquiring or originating further Eligible Wakala Assets. All Wakala Portfolio Revenues other than Wakala Portfolio Principal Revenues (the **Wakala Portfolio Income Revenues**) for that Series shall be credited to the applicable Wakala Income Collection Account.

In relation to each Series, amounts standing to the credit of the Wakala Income Collection Account will be applied by the Servicing Agent on the Business Day immediately preceding each Periodic Distribution Date in the following order of priority:

- (i) *first*, in repayment to the Servicing Agent of any amounts advanced by way of a Liquidity Facility;
- (ii) *second*, in payment to the Servicing Agent on behalf of the Trustee of any Service Agency Liabilities Amounts for the period corresponding to the Return Accumulation Period ending on that Periodic Distribution Date or any Service Agency Liabilities Amounts for any previous periods that remain unpaid;
- (iii) *third*, to pay into the Transaction Account an amount equal to the lesser of (i) the Required Amount payable on the immediately following Periodic Distribution Date and (ii) the balance of the Wakala Income Collection Account; and

- (iv) *fourth*, any amounts still standing to the credit of the Wakala Income Collection Account immediately following payment of all of the above amounts shall be debited from the Wakala Income Collection Account and credited to the Wakala Income Reserve Collection Account.

If there is a shortfall at any relevant time in relation to a Series between the amounts standing to the credit of the Transaction Account and the Required Amount payable on the immediately following Periodic Distribution Date, amounts standing to the credit of the Wakala Income Reserve Collection Account may be applied towards such shortfall. If a shortfall remains following such application the Servicing Agent may also advance (or may procure the advance of, as applicable) amounts to the Trustee by way of a Liquidity Facility to ensure the Trustee receives the Required Amount on such Periodic Distribution Date to pay the relevant Periodic Distribution Amount, by paying the amounts so advanced into the Transaction Account on the Business Day immediately preceding the relevant Periodic Distribution Date. Any Liquidity Facility shall be provided on terms that it is repayable from Wakala Portfolio Income Revenues in accordance with the Service Agency Agreement or on the Dissolution Date.

The Servicing Agent will be entitled to deduct amounts standing to the credit of the Wakala Income Reserve Collection Account at any time and use such amounts for its own account, provided that such amounts shall be repaid by it if so required to fund any shortfall as described above.

The Servicing Agent shall keep records of all movements in the Collection Accounts for each Series. Following payment of all amounts due and payable under the Certificates of a Series on its Dissolution Date, the Servicing Agent shall be entitled to retain any amounts that remain standing to the credit of the Collection Accounts for that Series for its own account as an incentive payment for acting as Servicing Agent.

The Servicing Agent will agree in the Service Agency Agreement that all payments by it under the Service Agency Agreement will be made without any deduction or withholding for or on account of tax unless required by law and without set-off or counterclaim of any kind. If there is any deduction or withholding, the Servicing Agent shall pay all additional amounts as will result in the receipt by the Trustee of such net amounts as would have been received by it if no deduction or withholding had been made. The payment obligations of the Servicing Agent under the Service Agency Agreement in relation to a Series will be direct, unconditional, unsecured and general obligations of the Bank which rank (save for such exceptions as may be provided by applicable legislation) at least *pari passu* with all other unsecured, unsubordinated monetary obligations of the Bank, present and future.

For these purposes:

**applicable Wakala Exchange Rate** means, in the case of any amount paid or payable in respect, or any face amount, principal amount or par value, of a Wakala Asset (including any amount of Wakala Portfolio Principal Revenues) that is in a currency (the **Wakala Currency**) other than the Specified Currency, the spot rate of exchange at which the Servicing Agent is able to purchase the Specified Currency with such amount of the Wakala Currency on the date on which the Wakala Currency is required to be exchanged into the Specified Currency in accordance with the Service Agency Agreement (or if it is not practicable to make such purchase on such date, on the immediately preceding date on which it is so practicable), without taking into account any premium or other costs of exchange;

**Intangible Asset** means a Murabaha Receivable or Other Intangible Asset that is an Eligible Wakala Asset;

**Major Maintenance and Structural Repair** means all structural repair and major maintenance (excluding Ordinary Maintenance and Repair), including doing such acts or things and taking such steps to ensure that the Self-Use Assets suffer no damage, loss or diminution in value without which the Self-Use Assets could not be reasonably and properly used by the lessee;

**Ordinary Maintenance and Repair** means all day-to-day repairs, replacements, acts, maintenance and upkeep works required for the general use and operation of the Self-Use Assets and to keep, repair, maintain and preserve the Self-Use Assets in good order, state and condition;

**Proprietorship Taxes** means all taxes in relation to the Self-Use Assets by law imposed, charged or levied, against a proprietor, but excluding all taxes that are by law imposed, charged or levied against a lessee or tenant;

**Rental** means the rental amounts payable in accordance with the terms of the Lease Agreement;

**Required Amount** means, in relation to each Series:

- (i) in respect of an amount payable on a Periodic Distribution Date, an amount equal to the aggregate of all Periodic Distribution Amounts payable on each such Periodic Distribution Date in respect of the Certificates of such Series; or
- (ii) in respect of an amount payable on a Dissolution Date (other than a Certificateholder Put Right Date or an Optional Dissolution Date), an amount equal to the aggregate of all accrued and unpaid Periodic Distribution Amounts payable on such Dissolution Date in respect of the Certificates of such Series; or
- (iii) in relation to an amount payable on a Certificateholder Put Right Date, an amount equal to all accrued and unpaid Periodic Distribution Amounts (if any) payable on such Certificateholder Put Right Date in respect of the Certificates to be redeemed on such Certificateholder Put Right Date; or
- (iv) in relation to an amount payable on an Optional Dissolution Date, an amount equal to all accrued and unpaid Periodic Distribution Amounts (if any) payable on such Optional Dissolution Date in respect of the Certificates to be redeemed on such Optional Dissolution Date,

together with, in each case, an amount equal to the amounts payable pursuant to Conditions 5(b)(i) and 5(b)(ii) (as the case may be), in each case provided that the Trustee and/or the Bank (as the case may be) have received notification from the relevant party by the date specified for such purpose in the Service Agency Agreement;

**Schedule of Leased Assets** means the list of leased assets set out as Schedule 1 to the relevant Supplemental Lease Contract as that Schedule is updated from time to time by the Servicing Agent;

**Self-Use Asset** means any plot of land or other real estate related asset which is either: (i) to be developed in accordance with a development plan; or (ii) already developed but not externally leased to third parties, which is to form part of the Wakala Portfolio;

**Service Agency Liabilities Amount** means, in relation to each Series, the amount of any claims, losses, costs and expenses properly incurred or suffered by the Servicing Agent or other payments made by the Servicing Agent on behalf of the Trustee as may from time to time be notified in writing by the Servicing Agent to the Trustee, in each case in providing the relevant services during the relevant period but does not include any amount due to the Servicing Agent under the Service Agency Agreement in respect of any Liquidity Facility;

**Tangible Asset** means a Leased Asset, an Ijara Finance Asset or an Other Tangible Asset that is an Eligible Wakala Asset;

**Total Loss Event** means the total destruction of, or damage to the whole of, the Self-Use Assets or any event or occurrence which renders the whole of the Self-Use Assets permanently unfit for any economic use and (but only after taking into consideration the proceeds of any insurances or other indemnity granted by any third party in respect of the Self-Use Assets) the repair or remedial work in respect thereof is wholly uneconomical;

**Value** means:

- (i) in respect of any Wakala Asset the amount in the specified currency of the relevant Series (following conversion, if necessary, of any relevant amount(s) at the applicable Wakala Exchange Rate) determined by Noor (in its capacity as Seller) on the relevant date as being equal to, in respect of:
  - (a) Self-Use Assets, the initial value of any such Self-Use Asset at the time that it first became part of the Wakala Portfolio and, where relevant, as set out in the Supplemental Lease Contract or the relevant Substitution Instruction, as applicable);
  - (b) Ijara Finance Assets, which are: (i) leased on the *Ijara Muntahiah Bittamleek* (finance lease) basis, the aggregate of all outstanding fixed rental instalments payable by the lessee or other equivalent fixed instalment amounts payable by the obligor in the nature of capital or principal payments in respect of the relevant asset and; (ii) not leased on the *Ijara Muntahiah Bittamleek* (finance lease) basis, the initial agreed value or the outstanding base amounts payable by the lessee or other equivalent fixed instalment amounts payable by the obligor in the nature of capital or principal payments in respect of the relevant asset;

- (c) Other Tangible Assets having associated with them underlying tangible assets including tradable *sukuk*, the outstanding capital or investment amounts; and
  - (d) Intangible Assets, the aggregate of the outstanding amounts payable in respect of an Intangible Asset, provided that for the purposes of: (A) the consideration payable in connection with (x) the purchase of the Initial Wakala Portfolio and each Intangible Asset subsequently originated and comprising part of the Wakala Portfolio from time to time, (y) the substitution of any Intangible Asset in accordance with the Master Purchase Agreement or the Service Agency Agreement and (z) the sale and purchase or (as applicable) assignment, transfer and/or conveyance of any Intangible Asset pursuant to the Purchase Undertaking or (as applicable) the Sale Undertaking; and (B) any representations and warranties given in respect of the Value of an Intangible Asset and the requirement to maintain the Value of the Wakala Portfolio from time to time, in each case of (A) and (B) in accordance with the applicable provisions of the relevant Transaction Documents, the Value shall mean the aggregate of the outstanding amounts payable in respect of such Intangible Asset in the nature of capital or principal payments;
- (ii) in the case of any Wakala Portfolio Principal Revenues, the amount of such Wakala Portfolio Principal Revenues standing to the credit of the Wakala Principal Collection Account on such date; and
  - (iii) the **Wakala Portfolio Value** means in respect of the relevant Wakala Portfolio, the sum of: (A) the Value of each Wakala Asset comprised in the Wakala Portfolio at the relevant time as determined under paragraph (i) above; and (B) any Wakala Portfolio Principal Revenues held by the Servicing Agent at the relevant time as determined under paragraph (ii) above and the principal amount then outstanding of any *Shari'a* compliant investments in which the Wakala Portfolio Principal Revenues have been invested; and

**Wakala Portfolio** means, in relation to each Series (i) the Initial Wakala Portfolio related to that Series, (ii) from the time of any acquisition or origination of a Wakala Asset by the Servicing Agent in accordance with the Service Agency Agreement or substitution of a Wakala Asset in accordance with the Master Purchase Agreement or the Service Agency Agreement (as applicable) and in each case the Purchase Undertaking, shall include the Eligible Wakala Asset(s) so acquired or originated (as applicable) or substituted for the relevant Wakala Asset and cease to include the Wakala Asset so substituted (but shall not include in the case of (i) or (ii) above any obligations or liabilities of the Bank in respect of any such assets accruing prior to the date upon which the relevant Wakala Asset became part of the Wakala Portfolio (other than in its capacity as Servicing Agent)), (iii) from the time of any other sale or transfer of a Wakala Asset to the Bank in accordance with the Sale Undertaking or purchase or transfer of a Wakala Asset by the Bank pursuant to the Purchase Undertaking, shall cease to include the Wakala Asset so sold, transferred or purchased and (iv) at any time, the Wakala Portfolio Principal Revenues standing to the credit of the Wakala Principal Collection Account on the relevant date.

#### ***Purchase Undertaking***

The Purchase Undertaking will be executed as a deed on 14 April 2015 by the Bank in favour of the Trustee and the Delegate and will be governed by English law.

Pursuant to the Purchase Undertaking, the Bank will, in relation to each Series, irrevocably undertake in favour of the Trustee and the Delegate the right to require the Bank to purchase all of the Trustee's rights, title, interests, benefits and entitlements in, to and under:

- (i) the Wakala Assets on the Scheduled Dissolution Date, a Dissolution Event Redemption Date and each Certificateholder Put Right Date, in each case provided that all Certificates of the relevant Series are to be redeemed in full on such date; or
- (ii) a proportion of the Wakala Assets on each Certificateholder Put Right Date on which some but not all of the Certificates of a Series are to be redeemed, where such proportion of Wakala Assets to be so purchased will be equal to the proportion that the Certificates to be redeemed on the relevant Certificateholder Put Right Date bear to the aggregate of all such Certificates outstanding in respect of the relevant Series on such date,

in each case in consideration for payment by the Bank of the relevant Exercise Price.

For these purposes:

**Exercise Price** means, in relation to each Series, the price payable by the Bank to the Trustee in respect of the purchase by the Bank of all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the Wakala Assets (or the relevant proportion thereof), which shall be an amount in the Specified Currency equal to the aggregate of:

- (i) the aggregate outstanding face amount of the Certificates on the relevant Dissolution Event Redemption Date (in respect of the exercise of the right following the occurrence of a Dissolution Event) or the Business Day immediately preceding the Scheduled Dissolution Date or the Certificateholder Put Right Date, as the case may be;
- (ii) an amount equal to all accrued and unpaid Periodic Distribution Amounts (if any) relating to the Certificates to be redeemed on such date;
- (iii) an amount equal to the amounts payable pursuant to Conditions 5(b)(i) and 5(b)(ii) (as the case may be), in each case provided that the Trustee and/or the Bank have received notification from the relevant party by the date specified for such purpose in the Purchase Undertaking;
- (iv) (provided that all Certificates of the relevant Series are to be redeemed on such date and only to the extent not previously satisfied in accordance with the Service Agency Agreement) an amount equal to the sum of any outstanding (i) amounts repayable in respect of any Liquidity Facility and (ii) Service Agency Liabilities Amounts payable in respect of any distribution period (or part thereof, as applicable); and
- (v) any other amounts payable in relation to the Certificates on the relevant Dissolution Event Redemption Date, Scheduled Dissolution Date or Certificateholders Put Right Date (as applicable) as specified in the applicable Final Terms.

If the Trustee or the Delegate exercises its option prior to the Scheduled Dissolution Date of the relevant Series, an exercise notice will be required to be delivered by the Trustee or the Delegate under the Purchase Undertaking.

Pursuant to the Service Agency Agreement, the Servicing Agent may, from time to time, and shall in certain circumstances substitute Substituted Wakala Assets for New Wakala Assets, as more particularly described above. In addition, pursuant to the Master Purchase Agreement, the Seller shall in certain circumstances substitute Substituted Wakala Assets for New Wakala Assets, as more particularly described above. To effect such substitution, the Bank shall irrevocably grant the right to the Trustee and the Delegate to require the Bank to purchase the New Wakala Assets against the assignment, transfer and or conveyance of all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the Substituted Wakala Assets pursuant to the Purchase Undertaking, provided that certain conditions are satisfied. This right shall be deemed to have been exercised by the Trustee upon delivery by the Servicing Agent to the Trustee of a substitution instruction in accordance with the Service Agency Agreement.

The Bank will undertake in the Purchase Undertaking that if it fails to pay all or part of any Exercise Price when due (the **Outstanding Exercise Price**), (i) it will automatically continue to act as Servicing Agent in respect of the relevant Wakala Assets in accordance with the terms of the Service Agency Agreement and (ii) any Leased Asset shall continue to be leased by the Lessor to the Lessee pursuant to the terms of the Lease Agreement until payment of the Exercise Price in full is made by it.

The Bank will further undertake that if it breaches any declaration or undertaking in the Purchase Undertaking or if it or any administrator, liquidator or receiver of it disputes or challenges the rights, title, interests, benefits and entitlements of the Trustee in, to and under the Wakala Assets in respect of which the Purchase Undertaking is exercised, or if the sale and purchase or transfer of any of the Trustee's rights, title, interests, benefits and entitlements in, to and under any part of the Wakala Assets in respect of which the Purchase Undertaking is exercised is not (or is alleged not to be) effective in any jurisdiction for any reason, the Bank shall (as an independent, severable and separately enforceable obligation) fully indemnify the Trustee for the purpose of redemption in full of the Certificates and, accordingly, the amount payable under any such indemnity claim will equal the relevant Exercise Price.

The Bank will agree in the Purchase Undertaking that all payments by it under the Purchase Undertaking will be made without any deduction or withholding for or on account of tax unless required by law and without set-off or counterclaim of any kind. If there is any deduction or withholding, the Bank shall pay all additional amounts as will result in the receipt by the Trustee of

such net amounts as would have been received by it if no deduction or withholding had been made. In addition, if additional amounts are payable by the Trustee in respect of the Certificates in accordance with Condition 10, the Bank will undertake in the Purchase Undertaking to pay to the Trustee an amount equal to such additional amounts so that the full amount which would otherwise have been due and payable under the Certificates is received by the Trustee.

Without prejudice to the negative pledge provisions contained in Condition 6(b), the payment obligations of the Bank under the Purchase Undertaking in relation to a Series will be direct, unconditional, unsubordinated and unsecured obligations of the Bank which rank (save for such exceptions as may be provided by applicable legislation) at least *pari passu* with all other unsecured, unsubordinated monetary obligations of the Bank, present and future.

In the Purchase Undertaking, the Bank will undertake to comply with Condition 6(b) and will agree that the Obligor Events applicable to it will be set out in full in the Conditions, and that the occurrence and continuation thereof shall constitute a Dissolution Event for the purposes of the Conditions and the Purchase Undertaking. In addition, the Bank will undertake to promptly upon becoming aware of its occurrence, notify the Trustee and the Delegate of any Obligor Event (and the steps, if any, being taken to remedy it), any Potential Obligor Event.

If a right granted pursuant to the Purchase Undertaking is exercised in accordance with its terms, the Trustee and the Bank will be required to enter into a sale or transfer agreement to give effect to the sale or transfer of the Wakala Assets in respect of which the Purchase Undertaking has been exercised to the Bank, substantially in the form set out as a schedule to the Purchase Undertaking.

### ***Sale Undertaking***

The Sale Undertaking will be executed as a deed on 14 April 2015 by the Trustee in favour of the Bank and will be governed by English law.

Pursuant to the Sale Undertaking, the Trustee will grant the right to the Bank to oblige the Trustee to sell all of its rights, title, interests, benefits and entitlements in, to and under:

- (i) the Wakala Assets on the Early Tax Dissolution Date or on an Optional Dissolution Date, in each case provided that all Certificates of the relevant Series are to be redeemed in full on such date; or
- (ii) a proportion of the Wakala Assets on each Optional Dissolution Date on which some but not all of the Certificates a Series are to be redeemed, where such proportion of Wakala Assets to be so purchased will be equal to the proportion that the Certificates to be redeemed on the relevant Optional Dissolution Date bears to the aggregate of all such Certificates outstanding in respect of the relevant Series on such date,

in each case in consideration for payment by the Bank of the relevant Exercise Price.

For these purposes:

**Exercise Price** means, in relation to each Series (if applicable), the price payable by the Bank to the Trustee in respect of the purchase by the Bank of all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the Wakala Assets (or the relevant portion thereof), which shall be an amount in the Specified Currency equal to the aggregate of:

- (i) the aggregate outstanding face amount of the Certificates on the Business Day immediately preceding the Early Tax Dissolution Date or the Optional Dissolution Date, as the case may be;
- (ii) an amount equal to all accrued and unpaid Periodic Distribution Amounts (if any) relating to the Certificates to be redeemed on the Early Tax Redemption Date or the Optional Dissolution Date, as the case may be;
- (iii) an amount equal to the amounts payable pursuant to Conditions 5(b)(i) and 5(b)(ii) (as the case may be), in each case provided that the Bank has received notification from the relevant party by the date specified for such purpose in the Sale Undertaking;
- (iv) (only where no Certificate of the relevant Series remains outstanding following the exercise of the Optional Dissolution Right or following an early redemption of Certificates for tax reasons and to the extent not previously satisfied in accordance with the Service Agency Agreement) an amount equal to the sum of any outstanding (i) amounts repayable in respect of any Liquidity Facility and (ii) Service Agency Liabilities Amounts payable in respect of any relevant distribution period (or part thereof, as applicable) in respect of the Wakala Portfolio; and

- (v) any other amounts payable in relation to the Certificates on the relevant Early Tax Dissolution Date or Optional Dissolution Date (as applicable) as specified in the applicable Final Terms.

The rights granted under the Sale Undertaking may be exercised by serving notice on the Trustee:

- (i) following the occurrence of a Tax Event and upon satisfaction of the conditions precedent relating thereto set out in Condition 8(b), by the Obligor delivering an exercise notice to the Trustee specifying the Early Tax Dissolution Date, which must be (a) not less than the minimum period nor more than the maximum period of notice as specified in the applicable Final Terms after the date on which the exercise notice is given and (b) if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable to the relevant Series, a Periodic Distribution Date, provided that no such exercise notice may be given earlier than 90 days prior to the earliest date on which the Trustee or the Obligor, as the case may be, would be obliged to pay the additional amounts referred to in Condition 8(b) were a payment in respect of the Certificates (in the case of the Trustee) or to the Trustee pursuant to any Transaction Document (in the case of the Obligor) then due; and
- (ii) if Optional Dissolution Right is specified in the applicable Final Terms as being applicable, by the Bank delivering an exercise notice to the Trustee specifying the Optional Dissolution Date which must be (a) not less than the minimum period nor more than the maximum period of notice as specified in the applicable Final Terms after the date on which the exercise notice is given and (b) an Optional Dissolution Date.

For the purposes of the foregoing, **Tax Event** means either (i) (A) the Trustee has or will become obliged to pay additional amounts as described under Condition 10 as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands or any political subdivision or, in each case, any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the relevant Series, and (B) such obligation cannot be avoided by the Trustee taking reasonable measures available to it; or (ii) (A) the Obligor has or will become obliged to pay additional amounts to the Trustee pursuant to the terms of any Transaction Document as a result of any change in, or amendment to, the laws or regulations of the United Arab Emirates, the Emirate of Dubai or any political subdivision or, in each case, any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the relevant Series, and (B) such obligation cannot be avoided by the Obligor taking reasonable measures available to it.

Pursuant to Condition 8(f) and 8(g), the Bank and its subsidiaries may at any time purchase Certificates in the open market or otherwise. If the Bank chooses to cancel any Certificates so purchased, the Bank will also have the right under the Sale Undertaking to require the Trustee to transfer all of its rights, title, interests, benefits and entitlements in, to and under a portion of the Wakala Assets comprising the Wakala Portfolio to the Bank in consideration for cancellation of the relevant Certificates provided that certain conditions are satisfied, as more particularly described in the Sale Undertaking.

If a right granted pursuant to the Sale Undertaking is exercised in accordance with its terms, the Trustee and the Bank will be required to enter into a sale or transfer agreement to give effect to the sale or transfer of the Wakala Assets in respect of which the Sale Undertaking has been exercised to the Bank, substantially in the form set out as a schedule to the Sale Undertaking.

#### *Master Lease Agreement*

The Master Lease Agreement will be entered into on 14 April 2015 between Noor (in its capacity as Lessee), Noor Sukuk Company Ltd. (in its capacity as Trustee and as Lessor) and the Delegate and is governed by the laws of Dubai and, to the extent applicable in Dubai, the federal laws of the UAE. A Supplemental Lease Contract between the same parties will be entered into on the Issue Date of each Series and will also be governed by the laws of Dubai and, to the extent applicable in Dubai, the federal laws of the UAE.

Under the terms of the Lease Agreement, the Lessor will lease to the Lessee, and the Lessee will lease from the Lessor, the Self-Use Assets identified in the schedule of leased assets (the Schedule of Leased Assets) set out in each Supplemental Lease Contract (the Leased Assets) during renewable rental periods falling within the lease term, commencing on the relevant rental payment date (or with

respect to the first rental period, from, and including, the lease commencement date (each as defined in the relevant Supplemental Lease Contract), to but excluding, the immediately following rental payment date (unless the relevant Supplemental Lease Contract is terminated earlier in accordance with its terms). The Lessor and the Lessee will agree that there will be no obligation to register the lease of the relevant Leased Assets (to the extent such lease is registrable).

The Lessee will agree to use the relevant Leased Assets at its own risk. Accordingly, the Lessee shall from the date of the relevant Supplemental Lease Contract bear the entire risk of loss of or damage to the relevant Leased Assets or any part thereof arising from the usage or operation thereof by the Lessee to the extent that such loss or damage has resulted from the Lessee's negligence, default, or breach of its obligations under the Lease Agreement. Without limitation to the generality of the foregoing, the Lessor shall not be liable (and the Lessee will waive any claim or right, howsoever arising, to the contrary) for: (i) any defects, either patent or latent, in any part of the Leased Assets, or for any direct or indirect damage to persons or property resulting from any such defects; or (ii) any indirect, consequential or other losses, howsoever arising, in connection with the Lessee's use or operation of the relevant Leased Assets.

Under the Lease Agreement, the Lessee shall, at its own cost and expense, be responsible for the performance of all Ordinary Maintenance and Repair (as defined in the Master Lease Agreement) in respect of the Leased Assets. The Lessor shall be responsible for: (i) the performance of all Major Maintenance and Structural Repair; (ii) the payment of any Proprietorship Taxes or other relevant taxes, and (iii) insuring the Leased Assets, and the Lessee has acknowledged that the Lessor may procure the performance of the Major Maintenance and Structural Repair, the payment of such Proprietorship Taxes or other relevant taxes and the taking out and maintenance of such insurance of the Leased Assets by the Servicing Agent on its behalf and in accordance with the provisions of the Service Agency Agreement.

The Lessee will agree: (i) to obtain and maintain in full force and effect all necessary licences, permits, consents, approvals or other authorisations (together, **Authorisations**); (ii) to make all necessary filings and serve all necessary notices; and (iii) to comply with all applicable Authorisations, laws, regulations and declarations, in each case in respect of its occupation or use of the Leased Assets.

The Lessor and the Lessee will agree that, to the extent that the Leased Assets include undeveloped land, the Lessee shall have the right to develop such land in accordance with the development plan summarised in the Schedule of Leased Assets (as such development plan may be amended by the Lessee from time to time) at any time during the lease term (provided that any such use of the land does not contravene the principles of *Shari'a*).

The parties will acknowledge the right of the Lessee at any time and from time to time to sub-lease the Leased Assets and will agree that any such sub-lease entered into shall not affect the obligations of the Lessee set out in the Lease Agreement, or the obligation of the Lessee to pay Rental as set out in the Lease Agreement. Any such sub-lease entered into must terminate prior to the expiration of the lease term.

All payments by the Lessee to the Lessor under each Lease Agreement shall be paid in full without set-off or counterclaim of any kind and free and clear of, and without any deduction or withholding for or on account of any taxes unless required by law. If any deduction or withholding on account of any tax is required by law to be made, the Lessee will agree, in the relevant Supplemental Lease Contract, to pay all additional amounts as will result in the receipt by the Lessor of such net amounts as would have been received by it if no deduction or withholding had been made. The payment obligations of the Lessee under each Lease Agreement will be direct, unconditional, unsubordinated and unsecured obligations of the Lessee which will rank (save for such exceptions as may be provided by applicable legislation and subject as provided in the Lease Agreement) at least *pari passu* with all other unsecured, unsubordinated and monetary obligations of the Lessee, present and future.

The rental amounts payable under each Lease Agreement will be paid into the Wakala Income Collection Account in order to fund, together with the other Wakala Portfolio Income Revenues, the Periodic Distribution Amount payable on each Periodic Distribution Date.

Each Lease Agreement will provide that it shall automatically terminate, but without prejudice to any right or remedy the Lessor may have under any Transaction Document or by law, if a Total Loss Event occurs and, in such a case, the Lessor will be entitled to any accrued and unpaid rental to the date on which the Total Loss Event occurred.

For these purposes:

**Lease Agreement** means the Master Lease Agreement and the relevant Supplemental Lease Contract.

***Master Trust Deed***

The Trust Deed will be entered into on 14 April 2015 between the Bank, the Trustee, and the Delegate and will be governed by English law. A Supplemental Trust Deed between the same parties shall be entered into on the Issue Date of each Series of Certificates and shall also be governed by English law.

Upon issue of a Series of Certificates, the Master Trust Deed as supplemented by the relevant Supplemental Trust Deed shall together constitute the Trust declared by the Trustee in relation to such Series (the Master Trust Deed as supplemented by the relevant Supplemental Trust Deed for each Series being referred to herein as the **Trust Deed**).

The Trust Assets in respect of each Series shall comprise:

- (i) the cash proceeds of the issue of Certificates, pending application thereof in accordance with the terms of the Transaction Documents;
- (ii) the rights, title, interest, benefits and entitlements, present and future of the Trustee in, to and under the Wakala Portfolio;
- (iii) the rights, title, interest, benefits and entitlements, present and future of the Trustee in, to and under the Transaction Documents (excluding the Excluded Representations (as defined in the Conditions) and the covenant given to the Trustee pursuant to Clause 13.1 of the Master Trust Deed);
- (iv) all moneys standing to the credit of the Transaction Account from time to time, and all proceeds of the foregoing.

Pursuant to the relevant Trust Deed, the Trustee will, in relation to each Series of Certificates, amongst other things, hold the relevant Trust Assets on trust absolutely for the holders of the Certificates as beneficiaries *pro rata* according to the face amount of Certificates of that Series held by each Certificateholder and act as trustee in respect of the Trust Assets, distribute the income from the Trust Assets and perform its duties in accordance with the provisions of the relevant Trust Deed. Pursuant to the Master Trust Deed, the Trustee will irrevocably and unconditionally appoint the Delegate to be its attorney and in its name, on its behalf and as its act and deed to:

- (i) execute, deliver and perfect all documents; and
- (ii) exercise all of the present and future duties, powers (including the power to sub-delegate), trusts, rights, authorities (including, but not limited to, the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the Trust Deed and the Certificates,

that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or a Potential Dissolution Event, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, (i) exercise all of the rights of the Trustee under the Purchase Undertaking and any of the other Transaction Documents and (ii) make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Conditions and the Trust Deed (together the **Delegation of the Relevant Powers**), provided that (i) no obligations, duties, liabilities or covenants of the Trustee pursuant to the Trust Deed or any other Transaction Document shall be imposed on the Delegate by virtue of the Delegation); (ii) in no circumstances will such Delegation of the Relevant Powers result in the Delegate holding on trust the Trust Assets; and (iii) such Delegation of the Relevant Powers shall not include any duty, power, trust, authority or discretion to dissolve the trusts constituted by the Trust Deed following the occurrence of a Dissolution Event or Potential Dissolution Event or to determine the remuneration of the Delegate. The Trustee will undertake in the Master Trust Deed to ratify and confirm all things done and all documents executed by the Delegate in the exercise of all or any of its powers pursuant to the Delegation.

The Delegation is to be made by the Trustee to the Delegate for the benefit of the Delegate and the Certificateholders, subject to the terms of the Conditions and the Master Trust Deed. Each of the Obligor and the Trustee will confirm in the Master Trust Deed that the Delegate may consult with or request and rely on (without liability to any person for so doing) the advice of any lawyer, valuer,

banker, broker, accountant or other expert in exercising the rights, powers or actions delegated to it under the Master Trust Deed.

In addition to the Delegation of the Relevant Powers, certain powers under the Trust Deed will be vested solely in the Delegate, including, amongst other things, the power to call and conduct meetings at the request of Certificateholders, to determine the occurrence of a Dissolution Event or a Potential Dissolution Event, to waive or authorise a breach of an obligation or determine that a Dissolution Event or Potential Dissolution Event shall not be treated as such, and the power to consent to certain types of amendments to any Transaction Document or the memorandum and articles of association of the Trustee, in each case as more particularly described in the Master Trust Deed.

Pursuant to the Master Trust Deed, the Bank will agree to pay certain fees and expenses incurred by the Trustee and/or the Delegate and will grant certain indemnities in favour of the Trustee and the Delegate in respect of any liabilities incurred in connection with their involvement in the Programme.

#### **Agency Agreement**

The Agency Agreement will be entered into on 14 April 2015 in relation to the Certificates between, amongst others, the Trustee, the Bank, the Delegate, the Principal Paying Agent and the Registrar. The Agency Agreement will govern the arrangements between the Trustee and the agents named therein for the issuance of Certificates and the making of payments in respect thereof. The Agency Agreement will be governed by English law.

## TAXATION

*The following is a general description of certain UAE, Cayman Islands and European Union tax considerations relating to the Certificates. It does not purport to be a complete analysis of all tax considerations relating to the Certificates, whether in those jurisdictions or elsewhere. Prospective purchasers of Certificates should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Certificates and receiving payments under the Certificates and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.*

### **Cayman Islands**

*The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Certificates. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.*

Under existing Cayman Islands laws, payments on Certificates to be issued under the Programme will not be subject to taxation in the Cayman Islands and no withholding will be required on the payments to any holder of the Certificates, nor will gains derived from the disposal of the Certificates be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance or gift tax.

The Trustee has applied for and expects to receive an undertaking from the Governor in Cabinet of the Cayman Islands, pursuant to the Tax Concessions Law (as amended) of the Cayman Islands, that for a period of 20 years from the date of grant of that undertaking no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Trustee or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable on or in respect of the shares, debentures or other obligations (which includes the Certificates) of the Trustee or by way of the withholding in whole or part of any relevant payment as defined in the Tax Concessions Law (as amended). No capital or stamp duties are levied in the Cayman Islands on the issue or redemption of Certificates. However, an instrument transferring title to any Certificates, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. An annual registration fee is payable by the Trustee to the Cayman Islands Registrar of Companies which is calculated by reference to the nominal amount of its authorised capital. At current rates, this annual registration fee is U.S.\$853.66. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

### **United Arab Emirates**

There is currently in force in the Emirate of Dubai legislation establishing a general corporate taxation regime (the Dubai Income Tax Decree 1969 (as amended)). The regime is, however, not enforced save in respect of companies active in the hydrocarbon industry, some related service industries and branches of foreign banks operating in the UAE. It is not known whether the legislation will or will not be enforced more generally or within other industry sectors in the future. Under current legislation, there is no requirement for withholding or deduction for or on account of UAE or Dubai taxation in respect of payments of profit and principal to any holder of the Certificates or any payments to be made by the Bank to the Trustee pursuant to the Transaction Documents. If any such withholding or deduction is required to be made in respect of payments due by the Bank under any Transaction Document to which it is party, the Bank has undertaken to gross-up the payment(s) due by it accordingly. If any such withholding or deduction is required to be made in respect of payments due by the Trustee under the Certificates, (i) the Trustee has undertaken to gross-up the payment(s) accordingly (subject to certain limited exceptions) and (ii) the Bank has undertaken to pay such additional amounts to the Trustee to enable it to discharge such obligation.

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

The UAE has entered into "Double Taxation Arrangements" with certain other countries, but these are not extensive in number.

### *EU Savings Directive on the Taxation of Savings Income*

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest and other similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Austria is required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which operate a withholding system when they are implemented.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

### **The Proposed Financial Transactions Tax (FTT)**

On 14 February 2013, the European Commission has published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**).

The proposed FTT has very broad scope and could, if introduced, apply to certain dealings in Certificates (including secondary market transactions) in certain circumstances. The issuance and subscription of Certificates should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Certificates where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including: (a) by transacting with a person established in a participating Member State; or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate.

Prospective holders of Certificates are advised to seek their own professional advice in relation to the FTT.

### **Foreign Account Tax Compliance Act**

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to: (i) any non-U.S. financial institution (a foreign financial institution, or **FFI** (as defined by FATCA)) that does not become a **Participating FFI** by entering into an agreement with the U.S. Internal Revenue Service (**IRS**) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA; and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of the Trustee (a **Recalcitrant Holder**). The Issuer may be classified as an FFI.

The new withholding regime is now in effect for payments from sources within the United States and will apply to **foreign passthru payments** (a term not yet defined) no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of: (i) any Certificates characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued after the **grandfathering date**, which is the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified after the grandfathering date; and (ii) any Certificates characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued.

The United States and a number of other jurisdictions have entered into intergovernmental agreements to facilitate the implementation of FATCA (each, an **IGA**). Pursuant to FATCA and the Model 1 and Model 2 IGAs released by the United States, an FFI in an IGA signatory country could be treated as a **Reporting FI** not subject to withholding under FATCA on any payments it receives. Further, an FFI in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being **FATCA Withholding**) from payments it makes. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and the Cayman Islands have entered into an agreement (the **US-Cayman IGA**) based largely on the Model 1 IGA.

If the Issuer is treated as a Reporting FI pursuant to the US-Cayman IGA it does not anticipate that it will be obliged to deduct any FATCA Withholding on payments it makes. There can be no assurance, however, that the Issuer will be treated as a Reporting FI, or that it would in the future not be required to deduct FATCA Withholding from payments it makes. The Issuer and financial institutions through which payments on the Certificates are made may be required to withhold FATCA Withholding if: (i) any FFI through or to which payment on such Certificates is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA; or (ii) an investor is a Recalcitrant Holder.

Whilst the Certificates are in global form and held within the ICSDs, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Certificates by the Issuer, the Obligor, the Principal Paying Agent and the Common Depositary, given that each of the entities in the payment chain between the Issuer and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Certificates. The documentation expressly contemplates the possibility that the Certificates may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive Certificates will only be printed in remote circumstances.

**FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Trustee and to payments they may receive in connection with the Certificates.**

## SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (the **Programme Agreement**) dated 14 April 2015, agreed with the Trustee and the Bank a basis upon which they or any of them may from time to time agree to purchase Certificates. Any such agreement will extend to those matters stated under “*Terms and Conditions of the Certificates*”.

In accordance with the terms of the Programme Agreement, each of the Trustee and the Bank has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Certificates under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

The Trustee and the Bank will pay each relevant Dealer a commission as agreed between them in respect of Certificates subscribed by it.

The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe Certificates in certain circumstances prior to payment for such Certificates being made to the Trustee.

Certain of the Dealers and their respective affiliates have from time to time performed, and may perform in the future, investment banking, commercial banking and various financial and advisory services for, and have from time to time provided, or may provide, credit facilities to the Bank for which they have received, or may in the future receive, customary fees and expenses. Each of the Dealers and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Bank in the ordinary course of their respective businesses.

### **General**

Neither the Trustee, nor the Bank nor any Dealer has made any representation that any action has been or will be taken in any jurisdiction that would permit a public offering of any of the Certificates, or possession or distribution of the Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required. Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it shall, to the best of its knowledge and belief, comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Certificates or has in its possession or distributes the Base Prospectus or any other offering material or any Final Terms, in all cases at its own expense.

### ***United States***

The Certificates have not been and will not be registered under the Securities Act, as amended, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Programme Agreement, it will not offer, sell or deliver Certificates (i) as part of their distribution at any time or (ii) otherwise until expiration of 40 days after the completion of the distribution of all Certificates of the Series of which such Certificates are a part, as determined and certified to the Principal Paying Agent by such Dealer (or, in the case of a Series of Certificates sold to or through more than one Dealer, by each of such Dealers with respect to Certificates of a Series purchased by or through it, in which case the Principal Paying Agent shall notify such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Certificates during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Certificates within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Certificates are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until the expiration of 40 days after the commencement of the offering of any Series of Certificates, an offer or sale of Certificates within the United States by any dealer (whether or not participating in the offering of such Series of Certificates) may violate the registration requirements of the Securities Act.

This Base Prospectus has been prepared by the Trustee and the Bank for use in connection with the offer and sale of the Certificates outside the United States. The Trustee, the Bank and the Dealers reserve the right to reject any offer to purchase the Certificates, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States. Distribution of this Base Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Trustee of any of its contents to any such U.S. person or other person within the United States, is prohibited.

#### ***Public Offer Selling Restrictions under the Prospectus Directive***

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

- (i) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (ii) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Trustee for any such offer;
- (iii) at any time if the denomination per Certificate being offered amounts to at least €100,000 (or equivalent); or
- (iv) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Certificates referred to in paragraphs (i) to (iv) (inclusive) above shall require the Trustee, the Bank or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision: (i) the expression an **offer of Certificates to the public** in relation to any Certificates in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Certificates to be offered so as to enable an investor to decide to purchase or subscribe the Certificates, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; (ii) the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive), to the extent implemented in the relevant Member State, and includes any relevant implementing measure in each Relevant Member State; and (iii) the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

#### ***United Kingdom***

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

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

- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Certificates in, from or otherwise involving the United Kingdom.

#### ***Cayman Islands***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that no invitation or offer, whether directly or indirectly, to subscribe for the Certificates has been or will be made to the public in the Cayman Islands.

#### ***United Arab Emirates (excluding the Dubai International Financial Centre)***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Certificates to be issued under the Programme have not been and will not be offered, sold or publicly promoted or advertised by it in the UAE other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

#### ***Dubai International Financial Centre***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Certificates to be issued under the Programme to any person in the Dubai International Financial Centre unless such offer is:

- (i) an Exempt Offer in accordance with the Markets Rules (MKT) Module of the Dubai Financial Services Authority (the **DFSA**); and
- (ii) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

#### ***Kingdom of Bahrain***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, any Certificates, except on a private placement basis to persons in Bahrain who are “accredited investors”.

For this purpose, an **accredited investor** means:

- (i) an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more;
- (ii) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$1,000,000; or
- (iii) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

#### ***Kingdom of Saudi Arabia***

No action has been or will be taken in Saudi Arabia that would permit a public offering of the Certificates. Any investor in Saudi Arabia or who is a Saudi person (a **Saudi Investor**) who acquires any Certificates pursuant to an offering should note that the offer of Certificates is a private placement under Article 10 or Article 11 of the Offer of Securities Regulations as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the **KSA Regulations**), through a person authorised by the Capital Market Authority (the **CMA**) to carry on the securities activity of arranging and following a notification to the CMA under the KSA Regulations. The Certificates may thus not be advertised, offered or sold to any person in Saudi Arabia other than to “Sophisticated Investors” under Article 10 of the KSA Regulations or by way of a limited offer under Article 11 of the KSA Regulations.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer of Certificates will be made in compliance with the KSA Regulations.

Each offer of Certificates shall not therefore constitute a public offer pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement

under Article 10 and/or Article 11 of the KSA Regulations may not offer or sell those Certificates to any person unless the offer or sale is made through an authorised person appropriately licensed by the Saudi Arabian Capital Market Authority and: (i) the Certificates are offered or sold to a Sophisticated Investor; (ii) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyal 1 million or an equivalent amount; or (iii) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

#### *State of Qatar*

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell any Certificates in Qatar (including the Qatar Financial Centre), except: (a) in compliance with all applicable laws and regulations of Qatar; and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar. This Base Prospectus has not been reviewed or approved by the QCB or the QFMA and is only intended for specific recipients, in compliance with the foregoing.

#### *Japan*

The Certificates have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not, directly or indirectly, offer or sell any Certificates in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act of 1949 (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

#### *Hong Kong*

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

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **Securities and Futures Ordinance**) and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a **prospectus** as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

#### *Malaysia*

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

- (i) this Base Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia (the **CSMA**); and
- (ii) accordingly, the Certificates have not been and will not be offered or sold, and no invitation to subscribe for or purchase the Certificates have been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under Schedule 6 or Section 229(1)(b) and Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3), read together with Schedule 9 or Section 257(3) of the CSMA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Dealers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

### ***Singapore***

This Base Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Certificates or caused such Certificates to be made the subject of an invitation for subscription or purchase and will not offer or sell such Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Certificates, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA); (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA except:

- (a) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (b) where no consideration is or will be given for the transfer;
- (c) where the transfer is by operation of law;
- (d) as specified in Section 276(7) of the SFA; or
- (e) as specified in Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

## GENERAL INFORMATION

### **Listing of the Certificates**

Application has been made to the DFSA for Certificates issued under the Programme to be admitted to the DFSA Official List. An application may be made for any Series of Certificates to be admitted to trading on NASDAQ Dubai.

### **Authorisation**

Each of the Trustee and the Bank has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Certificates and the entry into and performance of the Transaction Documents to which it is a party. The establishment of the Programme was authorised by a resolution of the Board of Directors of the Trustee dated 13 April 2015 and by a resolution of the Board of Directors of the Bank dated 23 February 2015.

### **Significant or Material Change**

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

There has been no significant change in the financial or trading position of the Bank and there has been no material adverse change in the financial position or prospects of the Bank since 31 December 2014.

### **Litigation**

Neither the Trustee nor the Bank is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Trustee or the Bank is aware) in the twelve months preceding the date of this Base Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of the Trustee or the Bank.

### **Clearing Systems**

Certificates have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Certificates will be set out in the relevant Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.

### **Third party information**

Where information in this Base Prospectus has been sourced from third parties this information has been accurately reproduced and as far as each of the Trustee and the Bank is aware and is able to ascertain from the information published by such third parties no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.

### **Condition for determining price**

The price and amount of Certificates to be issued under the Programme will be determined by the Trustee, the Bank and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

### **Documents Available**

For the period of 12 months from the date of this Base Prospectus and for as long as any Certificates are outstanding, physical copies of the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of the Paying Agents:

- (i) each Final Terms and the other Transaction Documents in relation to each Series;
- (ii) the constitutional documents of the Trustee and the Bank;
- (iii) the audited financial statements of the Bank in respect of the two financial years ended 31 December 2013 and 31 December 2014, in each case together with the audit reports prepared in connection therewith;
- (iv) the most recently published audited financial statements of the Bank; and
- (v) a copy of this Base Prospectus together with any Supplement to this Base Prospectus or further Base Prospectus.

This Base Prospectus will be available for viewing on the website of NASDAQ Dubai (<http://www.nasdaqdubai.com>).

#### **Auditors**

PricewaterhouseCoopers has audited the financial statements of the Bank for the two years ended 31 December 2014 and 31 December 2013, as stated in each of the auditor's reports appearing herein. PricewaterhouseCoopers has no material interest in the Trustee or the Bank.

PricewaterhouseCoopers are independent auditors registered to practice as auditors with the Ministry of Economy in the UAE, as set forth in the auditor's reports included in this Base Prospectus. Their address is at Emaar Square, Building 4, Level 8, P.O. Box 11987, Dubai, United Arab Emirates.

Since the date of its incorporation, no financial statements of the Trustee have been prepared. The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements, or appoint an auditor.

#### ***Shari'a Approvals***

The transaction structure relating to the Certificates (as described in this Base Prospectus) has been approved by the Fatwa and Shari'a Supervisory Board of the Bank and the Shariah Supervisory Committee of Standard Chartered Bank. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with *Shari'a* principles.

#### ***Description of the members of the Fatwa and Shari'a Supervisory Board of the Bank and the Shariah Supervisory Committee of Standard Chartered Bank***

##### ***Shariah Supervisory Committee of Standard Chartered Bank***

##### ***Dr Mohamed Ali Elgari***

Dr Ali Elgari graduated from the University of California with a Ph.D in Economics and is currently Professor of Islamic Economic and Director of Islamic Economic Research at King Abdulaziz University in Jeddah. He is a member of the International Islamic Fiqh Academy and serves as an expert at the Islamic jurisprudence academies of the Organisation of Islamic countries and the Islamic World League as well as member of the Shari'a Council of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). He is a member of Shari'a Boards at Islamic banks and takaful companies across the region including those of SAAB, Standard Chartered Bank, Dow Jones Islamic Market Indices, Citi Islamic Investment Bank, Crédit Agricole CIB and SAMBA Financial Group.

##### ***Sheikh Dr. Abdussattar Abu Ghuddah***

Dr. Abu Ghuddah holds a PhD in Comparative Jurisprudence from Al-Azhar University, a Bachelors in Shari'a from Damascus University, a Bachelors of Law from Damascus University, a Masters in Shari'a from Al-Azhar University and a Masters in Al-Hadith Sciences from Al-Azhar University. Dr. Abu Ghuddah is Chairman and General Secretary of the Unified Shari'a Board of Al-Baraka Banking Group, an expert and a former reporter of the Jurisprudence Encyclopaedia at the Kuwaiti Ministry of Awqaf & Islamic affairs, and a visiting professor at Saleh Kamel's Center for Islamic Economic Studies, Al-Azhar University.

He is also a member of the International Islamic Fiqh Academy in Jeddah, the Zakat International Shari'a Board, the Accounting Standards Council and the Shari'a Council of AAOIFI. He also serves as vice chairman of the Shari'a Board of Dubai Financial Market (DFM), an executive member of

the Shari'a Board of the Central Bank of Syria, a member of the Shari'a Committee of the Central Bank of Bahrain, vice chairman of the Shari'a Board of the Abu Dhabi Islamic Bank, a member of the Shari'a Board of the Sharjah Islamic Bank, chairman of the Shari'a Board of Abu Dhabi National Takaful Co., a member of the Shari'a Board of Takaful Re Limited, chairman of the Al Hilal Bank Shari'a Board, in addition to being the chairman or a member of many other Shari'a boards, including those of Standard Chartered Bank, Dow Jones Islamic Market Indices, Crédit Agricole CIB, SAMBA Financial Group, Qatar Islamic Bank and Jordan Islamic Bank.

***Sheikh Nizam Yaquby***

Sheikh Nizam Yaquby studied traditional Islamic studies under the guidance of eminent Islamic scholars from different parts of the world. He has a BA in economics & comparative religions from McGill University, Canada. He has served in Bahrain Mosques from 1981 to 1990 where he taught Tafsir, Hadith and Fiqh in Bahrain since 1976. In addition to advising Citi Islamic Investment Bank E.C. and other Islamic finance institutions and funds, Sheikh Nizam Yaquby is a member of the Islamic Fiqh Academy and Auditing and Accounting Organisation for Islamic Financial Institutions. He has published several articles and books on various Islamic subjects including banking and finance.

***Fatwa and Shari'a Supervisory Board of the Bank***

***Dr Mohamed Ali Elgari***

See the description of Dr Mohamed Ali Elgari set out above.

***Sheikh Dr. Abdussattar Abu Ghuddah***

See the description of Sheikh Dr. Abdussattar Abu Ghuddah set out above.

***Dr. Mohd Daud Bakar***

Dr. Mohd Daud currently sits as a chairman of the Shari'a Advisory Council at the Central Bank of Malaysia, the Securities Commission of Malaysia, the Labuan Financial Services Authority and the International Islamic Liquidity Management Corporation. He is also a *Shari'a* board member of various financial institutions, including the National Bank of Oman, Amundi Asset Management, Morgan Stanley, Bank of London and Middle East, BNP Paribas, Islamic Bank of Asia and Dow Jones Islamic Market Index. He is also the founder and group chairman of Amanie Advisors, a global boutique *Shari'a* advisory firm with offices located worldwide.

Prior to this; he was the deputy vice-chancellor at the International Islamic University Malaysia. Dr. Mohd Daud was also a member of the Shari'a Standards Committee of AAOIFI, Bahrain. He received his first degree in *Shari'a* from the University of Kuwait and obtained his PhD from the University of St. Andrews, United Kingdom. He also completed his external Bachelor of Jurisprudence at the University of Malaya. He has published a number of articles in various academic journals and has made many presentations in various conferences both local and overseas.

***Dr. Mohammad Abdul Rahim Sultan Al Olama***

Dr. Al Olama holds a Bachelor's degree in Shari'a from the Islamic University in Al Madina Al Munawwarah and a Masters and Doctorate of Jurisprudence from the University of Umm Al-Qura in Makkah Al Mukarramah. He holds many prominent positions including Expert in Islamic Jurisprudence at the Organization of the Islamic Conference, Expert in Islamic Fiqh in the Makkah-based Islamic World Association, Head of Quranic Studies and member of the Organizing Committee for Dubai International Holy Quran Award and member of Zakat Fund Shari'a Committee. Currently, Dr. Al Olama is an Associate Professor at the Emirates University where he teaches Islamic Studies. Dr. Al Olama is also a member of several Fatwa and *Shari'a* boards, including those of Dubai Islamic Bank, Emirates Islamic Bank, Al Hilal Bank, Dar Al Takaful, Mawarid Finance, Islamic Banking Division of Commercial Bank of Dubai, ACR Retakaful and Al Izz Islamic Bank. Dr. Al Olama is also a member of the Shari'a Standards Committee of AAOIFI, Bahrain. He is the author of many research studies and articles on Islamic Finance matters and he has participated in many training programmes, workshops and TV shows on the subject.

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**Noor Bank P.J.S.C.  
(Formerly Noor Islamic Bank P.J.S.C.)**

**Directors' report and financial statements  
for the year ended 31 December 2014**

## **Directors' report and financial statements for the year ended 31 December 2014**

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## Directors' report for the year ended 31 December 2014

The Board of Directors are pleased to submit their report on the activities of Noor Bank P.J.S.C. ("the Bank") together with the audited financial statements for the year ended 31 December 2014.

### Principal activities

The principal activities of the Bank are carrying out banking, financing and investing activities through various Islamic financing instruments such as Murabahah, Wakalah, Tawarruq, Istisna, Islamic sukuk and Ijarah. The activities of the Bank are conducted in accordance with the Islamic Shari'a principles and in compliance with the provisions of the Memorandum and Articles of Association of the Bank.

### Results

The statement of financial position of the Bank as at 31 December 2014, together with its income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended are set out in the accompanying financial statements.

### Dividends

The Board of Directors have proposed cash dividends of 10% for the year ended 31 December 2014.

### Composition of the Board of Directors

The Board of Directors of the Bank comprised of the following individuals during the year ended 31 December 2014:

H.H. Sheikh Ahmed bin Mohammad bin Rashid Al Maktoum (Chairman)  
H.E. Lt. Gen. Musabbeh Rashid Musabbeh Al Fattan (Vice Chairman)  
H.E. Abdullah Bin Mohammed Ghobash  
Mr. Sultan Ahmad Sultan bin Sulayem  
Mr. Mohamed Alabbar  
Mr. Essa Abdulfattah Kazim Al Mulla  
Mr. Soud Ahmad Abdulrahman Ba'alawy  
Mr. Abdulla Ahmed Mohamed Al Habbai  
Mr. Hussain Ahmad Dhaen Al Qemzi

### Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.  
Signed on behalf of the Board of Directors on 23 February 2015

  
.....  
Director

  
.....  
Director

## **Independent auditors' report to the shareholders of Noor Bank P.J.S.C.**

### **Report on the financial statements**

We have audited the accompanying financial statements of Noor Bank P.J.S.C. ("the Bank"), which comprise the statement of financial position as at 31 December 2014 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

## **Independent auditors' report to the shareholders of Noor Bank P.J.S.C. (continued)**

### **Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Report on other legal and regulatory requirements**

As required by the UAE Federal Law No (8) of 1984, as amended, we report that:

- a) we have obtained all the information we considered necessary for the purpose of our audit;
- b) the financial statements comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended, and the Articles of Association of the Bank;
- c) the Bank has maintained proper books of account and the financial statements are in agreement therewith;
- d) the financial information included in the Directors' report is consistent with the books of account of the Bank; and
- e) nothing has come to our attention, which causes us to believe that the Bank has breached any of the applicable provisions of the UAE Federal Law No (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2014.

Further, as required by the UAE Union Law No (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

PricewaterhouseCoopers  
23 February 2015



Amin H Nasser  
Registered Auditor Number 307  
Dubai, United Arab Emirates

## Statement of financial position

As at 31 December 2014

	Note	2014 AED'000	2013 AED'000
<b>ASSETS</b>			
Cash and balances with the UAE Central Bank	4	3,391,684	3,491,896
Due from banks	5	2,992,166	2,340,657
Investments in Islamic financing instruments	6	18,036,859	14,345,215
Investments in Islamic sukuk	7	2,881,263	1,811,289
Investment properties	8	1,266,567	213,800
Other assets	9	227,839	179,735
Property and equipment	10	216,577	768,899
<b>Total assets</b>		<b>29,012,955</b>	<b>23,151,491</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Customer deposits	11	23,850,955	18,663,581
Wakalah term deposits	12	544,192	770,921
Due to banks	13	542,223	853,218
Other liabilities	14	802,360	420,517
<b>Total liabilities</b>		<b>25,739,730</b>	<b>20,708,237</b>
<b>Equity</b>			
Share capital	15	3,307,895	3,307,895
Subscribed share capital	15	50,000	-
Statutory reserve	16	156,917	89,108
Revaluation surplus on land and buildings	10	127,932	7,587
Cumulative changes in fair value of available-for-sale Islamic sukuk		(19,984)	(1,525)
Accumulated losses		(349,535)	(959,811)
<b>Total equity</b>		<b>3,273,225</b>	<b>2,443,254</b>
<b>Total liabilities and equity</b>		<b>29,012,955</b>	<b>23,151,491</b>

These financial statements were approved by the Board of Directors on 23 February 2015 and signed on its behalf by:



.....  
Director



.....  
Director

**Income statement**

for the year ended 31 December 2014

	Note	2014 AED'000	2013 AED'000
<b>Operating Income</b>			
Income from Islamic financing and sukuk	17	895,165	678,686
Depositors' share of profit	18	<u>(238,413)</u>	<u>(270,930)</u>
<b>Net income from Islamic financing</b>		656,752	407,756
Fee and other income, net of charges	19	296,573	211,646
Gain on investments in Islamic sukuk	20	30,990	7,311
Change in fair value of investment properties	8	<u>28,356</u>	<u>5,852</u>
<b>Total operating income</b>		<u>1,012,671</u>	<u>632,565</u>
<b>Operating Expenses</b>			
Staff costs	21	(340,007)	(234,978)
General and administration expenses	22	(127,270)	(129,391)
Depreciation	10	<u>(21,532)</u>	<u>(23,895)</u>
<b>Total operating expenses</b>		<u>(488,809)</u>	<u>(388,264)</u>
<b>Operating profit before impairment on investment in Islamic financing instruments</b>		523,862	244,301
Impairment charge on Islamic financing instruments	6	<u>(122,593)</u>	<u>(43,850)</u>
<b>Operating profit after impairment on investment in Islamic financing instruments</b>		401,269	200,451
Reversal of impairment loss on land and buildings	10	<u>276,816</u>	<u>54,972</u>
<b>Profit for the year</b>		<u>678,085</u>	<u>255,423</u>

**Statement of comprehensive income**  
for the year ended 31 December 2014

	<i>Note</i>	<b>2014</b> <b>AED'000</b>	<b>2013</b> <b>AED'000</b>
<b>Profit for the year</b>		678,085	255,423
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to income statement</i>			
- Gain on revaluation of land and buildings	10	120,345	7,587
<i>Items that may be subsequently reclassified to income statement</i>			
<i>Fair value reserve on available-for-sale Islamic sukuk</i>			
- Net changes in fair value	7	2,316	(1,840)
- Net realised gain transferred to income statement	20	(20,775)	(1,354)
Total other comprehensive income		<u>101,886</u>	<u>4,393</u>
<b>Total comprehensive income for the year</b>		<u><b>779,971</b></u>	<u><b>259,816</b></u>

**Statement of changes in equity**  
for the year ended 31 December 2014

	Share capital AED'000	Subscribed share capital AED'000	Statutory reserve AED'000	Revaluation surplus on land & buildings AED'000	Cumulative changes in fair value of available-for-sale investment in Islamic sukuk AED'000	Accumulated losses AED'000	Total AED'000
<b>At 1 January 2013</b>	3,157,895	150,000	63,566	-	1,669	(1,189,692)	2,183,438
<b>Total comprehensive income for the year</b>							
Profit for the year	-	-	-	-	-	255,423	255,423
Revaluation of land and buildings (Note 10)	-	-	-	7,587	-	-	7,587
Net changes in fair value	-	-	-	-	(1,840)	-	(1,840)
Net realised gain transferred to income statement on disposal of available-for-sale investments in Islamic sukuk	-	-	-	-	(1,354)	-	(1,354)
<b>Other equity movements</b>							
Shares capital issued (Note 15 (iii))	150,000	(150,000)	-	-	-	-	-
Transfer to statutory reserve (Note 16)	-	-	25,542	-	-	(25,542)	-
<b>At 31 December 2013</b>	3,307,895	-	89,108	7,587	(1,525)	(959,811)	2,443,254
<b>Total comprehensive income for the year</b>							
Profit for the year	-	-	-	-	-	678,085	678,085
Revaluation of land and buildings (Note 10)	-	-	-	120,345	-	-	120,345
Net changes in fair value	-	-	-	-	2,316	-	2,316
Net realised gain transferred to income statement on disposal of available-for-sale investments in Islamic sukuk	-	-	-	-	(20,775)	-	(20,775)
<b>Other equity movements</b>							
Shares subscribed received (Note 15)	-	50,000	-	-	-	-	50,000
Transfer to statutory reserve (Note 16)	-	-	67,809	-	-	(67,809)	-
<b>At 31 December 2014</b>	3,307,895	50,000	156,917	127,932	(19,984)	(349,535)	3,273,225

## Statement of cash flows

for the year ended 31 December 2014

	Note	2014 AED'000	2013 AED'000
<b>Operating activities</b>			
Profit for the year		678,085	255,423
<b>Adjustments for:</b>			
Impairment loss on Islamic financing instruments	6	122,593	43,850
Change in fair value of investment properties	8	(28,356)	(5,852)
Reversal of impairment loss on property	10	(276,816)	(54,972)
Property and equipment disposed/written off	10	-	8
Amortisation of premium on Held to Maturity sukuk		2,887	1,869
Gain on investments in Islamic sukuk		(30,990)	(7,311)
Depreciation of property and equipment	10	21,532	23,895
Operating cash flows before changes in operating assets and liabilities		488,935	256,910
<b>Changes in operating assets and liabilities:</b>			
Statutory reserve with the UAE Central Bank	4	(778,318)	(329,494)
Due from banks	4,5	137,633	(898,329)
Investments in Islamic financing instruments	6	(3,868,982)	(3,636,151)
Net proceeds from disposal of investments in Islamic sukuk – Held for trading		(68,981)	(24,299)
Other assets	9	(46,104)	(6,054)
Customer deposits	11	5,187,374	4,611,390
Due to banks	4,13	(395,945)	(122,306)
Other liabilities	14	381,843	97,922
<b>Net cash generated from operating activities</b>		<u>1,037,455</u>	<u>(50,411)</u>
<b>Investing activities</b>			
Purchase of Islamic sukuk - Available for sale investments		(9,234,437)	(6,308,222)
Proceeds from Islamic sukuk - Available for sale investments		8,653,820	5,895,441
Purchase of Islamic sukuk – Held to maturity		(555,814)	(181,189)
Maturity proceeds from Islamic sukuk - Held to maturity		145,082	525,511
Investments in certificate of deposits	4	(500,000)	100,000
Additional investment in other equity investments	9	(2,000)	-
Additions to property and equipment	10	(41,715)	(16,951)
<b>Net cash generated from investing activities</b>		<u>(1,535,064)</u>	<u>14,590</u>
<b>Financing activity</b>			
Subscription received towards subscribed share capital	14	50,000	-
Tier II Wakalah deposit repaid		(770,921)	-
Tier II Wakalah deposit received		544,192	-
		<u>(176,729)</u>	<u>-</u>
<b>Net increase in cash and cash equivalents</b>		(674,338)	(35,821)
<b>Cash and cash equivalents at beginning of the year</b>		<u>2,857,003</u>	<u>2,892,824</u>
<b>Cash and cash equivalents at end of the year</b>	4	<u><u>2,182,665</u></u>	<u><u>2,857,003</u></u>

## **1 Incorporation and principal activities**

Noor Bank P.J.S.C. ("the Bank") was incorporated on 26 March 2007 as a Public Joint Stock Company under UAE Federal Law No. 8 of 1984 (as amended) and is regulated by the Central Bank of the United Arab Emirates ("UAE"). Effective 3 September 2014, the Bank has changed its name from "Noor Islamic Bank P.J.S.C" to "Noor Bank P.J.S.C". The Bank has its registered office at Emaar Square, Building No. 1, Sheikh Zayed Road, P.O. Box 8822, Dubai, UAE. The Bank was registered with the Securities and Commodities Authority ("SCA") on 26 April 2007 and commenced its operations thereafter.

The principal activities of the Bank are carrying out banking, financing and investing activities through various Islamic instruments such as Murabahah, Wakalah, Tawarruq, Ijarah, Istisna' and Islamic sukuk. The activities of the Bank are conducted in accordance with the Shari'a rules and principles as applied and interpreted by the Bank's Fatwa and Shari'a Supervisory Board and in compliance with the provisions of the Memorandum and Articles of Association of the Bank.

Noor Investment Group LLC ("NIG"), the parent company, holds 91% of the shareholding in the Bank.

## **2 Basis of preparation**

### **2.1 Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board (IASB).

### **2.2 Basis of measurement**

These financial statements have been prepared under the historical cost basis, except for the fair value measurement of following items in the statement of financial position:

- Financial assets and liabilities held for trading.
- Investments in Islamic sukuk classified as available-for-sale and fair value through income statement.
- Investment properties.
- Land and buildings classified under property and equipment.

### **2.3 Functional and presentation currency**

These financial statements are presented in United Arab Emirates Dirham ("AED"), which is the Bank's functional currency. Except as indicated, the financial information has been rounded to the nearest thousand.

## **2 Basis of preparation** (continued)

### **2.4 Use of estimates and judgements**

The preparation of the financial statements in conformity with IFRS requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described as follows:

#### *(a) Impairment of investments in Islamic financing instruments*

The Bank reviews its financing portfolio to assess impairment on a regular basis. In determining whether an impairment loss should be recognised, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence also may include observable data indicating that there has been an adverse change in the collections from customers in a group. Management uses estimates based on historical loss experience for financing with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### *(b) Classification of investments in Islamic sukuk as Held-to-Maturity ("HTM")*

In accordance with IAS 39 guidance, the Bank classifies its investments in Islamic sukuk with fixed or determinable payments and fixed maturities as HTM which requires significant judgment in evaluating Bank's intention and ability to hold such investments until maturity. Except for certain specific circumstances, any sale or reclassification of a more than insignificant amount of HTM investments would result in the reclassification of all HTM investments as available-for-sale, and would prevent the Bank from classifying investment in Islamic sukuk as HTM for the current and the following two financial years.

#### *(c) Fair valuation of investment properties and land and buildings under property and equipment*

The fair valuation of investment properties and buildings and certain plots of land classified under property and equipment is based on estimated value as determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS"). The fair valuation of remaining plots of land is determined by the Dubai Land Department. In undertaking the valuation the valuation experts have made a number of assumptions and relied upon various sources of information. Management reviews the assumptions based on their reasonable knowledge and other information available about the property.

## 2 Basis of preparation (continued)

### 2.4 Use of estimates and judgements (continued)

#### (d) *Estimated useful life and residual value of property and equipment*

The Bank's management determines the estimated useful lives and related depreciation charges for its property and equipment at least on an annual basis. The Bank carries out a review of the useful lives of property, plant and equipment at the reporting date and makes necessary changes to the useful life of the property and equipment, if required. Residual value in case of all property and equipment are assumed to be "AED 1".

#### (a) *New standards, amendments to published standards and interpretations effective for the Bank's accounting period beginning on 1 January 2014*

<b>New standards and significant amendments to standards</b>	<b>Effective date</b>
<b>Amendments to IFRS 10, 'Consolidated financial statements', IFRS 12, 'Disclosure of interest in other entities' and IAS 27, 'Separate financial statements' on consolidation for investment entities</b> The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. These amendments mean that many investment funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. Changes have also been made to IFRS 12 to introduce disclosures that an investment entity needs to make.	1 January 2014
<b>Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting</b> These amendments are to the application guidance in IAS 32 and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.	1 January 2014
<b>Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures</b> This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal, including the discount rate used if the recoverable amount is determined using a present value technique.	1 January 2014
<b>Amendment to IAS 39, 'Financial instruments: recognition and measurement' on novation of derivatives</b> This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria.	1 January 2014

There is no material impact of these amendments to published standards or IFRIC interpretations on the financial statements of the Bank.

## 2 Basis of preparation (continued)

*(b) New standards and amendments to published standards issued but not effective for the financial year beginning 1 January 2014 and not early adopted by the Bank*

New standards and significant amendments to standards	Effective date
<p><b>Annual improvements 2012</b></p> <p>These annual improvements amend standards from the 2010 - 2012 reporting cycle. It includes changes to:</p> <ul style="list-style-type: none"> <li>■ IFRS 8, 'Operating segments' which is amended to require disclosure of the judgements made by management in applying the aggregation criteria to operating segments. It is also amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.</li> <li>■ IFRS 13, 'Fair value measurement' which amended the basis of conclusions to clarify that it did not intend to remove the ability to measure short term receivables and payables on an undiscounted basis where the effect of discounting is immaterial.</li> <li>■ IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.</li> <li>■ IAS 24, 'Related party disclosures' is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (the 'management entity'). Disclosure of the amounts charged to the reporting entity is required.</li> </ul>	1 July 2014
<p><b>Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' regarding depreciation and amortisation.</b></p> <p>This amendment clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.</p> <p>The presumption may only be rebutted in certain limited circumstances.</p>	1 January 2016
<p><b>Amendments to IFRS 10 and IAS 28, 'Investments in associates and joint ventures' regarding the sale or contribution of assets between an investor and its associate or joint venture</b></p> <p>These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.</p>	1 January 2016

## 2 Basis of preparation (continued)

*(b) New standards and amendments to published standards issued but not effective for the financial year beginning 1 January 2014 and not early adopted by the Bank (continued)*

New standards and significant amendments to standards	Effective date
<p><b>Annual improvements 2014</b></p> <p>These annual improvements amend standards from the 2012 - 2014 reporting cycle. It includes changes to:</p> <ul style="list-style-type: none"> <li>■ IFRS 7, 'Financial instruments: Disclosures' – The amendment related to servicing contracts requires that if an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets.</li> <li>■ IAS 19, 'Employee benefits' – The amendment clarifies, when determining the discount rate for post-employment benefit obligations, that it is the currency that the liabilities are denominated in that is important, not the country where they arise.</li> </ul>	1 July 2016
<p><b>IFRS 15, 'Revenue from contracts with customers'</b></p> <p>This standard replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.</p>	1 January 2017

## 2 Basis of preparation (continued)

*(b) New standards and amendments to published standards issued but not effective for the financial year beginning 1 January 2014 and not early adopted by the Bank (continued)*

New standards and significant amendments to standards	Effective date
<p><b>IFRS 9, 'Financial instruments'</b></p> <p>The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&amp;L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.</p>	<p>1 January 2018</p> <p>Earlier application is permitted. If an entity elects to early apply it must apply all of the requirements at the same time with the following exception: Entities with a date of initial application before 1 February 2015 continue to have the option to apply the standard in phases.</p>

The Bank is in the process of assessing the impact of the above new standards and amendments to published standards or IFRIC interpretations issued but not yet effective for the Bank's financial year beginning on 1 January 2014.

There are no other applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Bank's financial year beginning on 1 January 2014 that would be expected to have a material impact on the financial statements of the Bank.

### **3 Significant accounting policies**

The significant accounting policies set out below have been applied consistently to all periods presented in these financial statements:

#### **3.1 Foreign currency translation**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 recognized in the income statement, as part of 'foreign exchange and other income' under "fee and other income, net of charges".

#### **3.2 Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand, balances held with the UAE Central Bank, deposits and balance due from banks or due to banks and placements with original maturity of less than three months, excluding statutory deposits required to be maintained with the UAE Central Bank.

#### **3.3 Due from banks**

Amounts due from banks are initially recognised at fair value and subsequently measured at amortised cost less any amounts written off and provision for impairment, if any. Impairment of amounts due from banks is assessed as outlined in the accounting policy of impairment of financial assets (Note 3.8).

#### **3.4 Investments in Islamic financing instruments**

Investments in Islamic financing instruments are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments that are not quoted in an active market.

Investments in Islamic financing instruments are initially measured at fair value including transaction costs associated with the investments in Islamic financing instruments, if any, as soon as the customer is bound by the financing agreement to drawdown the financing amount.

Investments in Islamic financing instruments are subsequently measured at amortised cost using the effective profit rate method.

Following the initial recognition, subsequent transfers between the various classes of investments in Islamic financing instruments is not ordinarily permissible.

### **3 Significant accounting policies** (continued)

#### **3.5 Investments in Islamic sukuk**

##### **3.5.1 Classification**

The Bank classifies its investments in Islamic sukuk in the following categories: Held-to-Maturity ("HTM") investments in Islamic sukuk, Available-For-Sale ("AFS") investment in Islamic sukuk and financial assets at fair value through income statement ("FVTPL"). Management determines the classification of its investments at initial recognition.

##### *Held-to-maturity*

Investments in Islamic sukuk at HTM are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount from the HTM category, the entire category would be reclassified as AFS.

##### *Available-for-sale*

Investments in Islamic sukuk at AFS are those non-derivative financial assets that are designated as AFS or are not classified as (a) investments in Islamic financing instruments, (b) HTM investments or (c) financial assets at fair value through income statement.

##### *Financial assets and financial liabilities at fair value through the income statement*

Investments in Islamic sukuk at FVTPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

##### **3.5.2 Recognition and measurement**

Regular-way purchases and sales are recognized on trade-date – the date on which the Bank commits to purchase or sell the asset. Investments in Islamic sukuk are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through income statement. Financial assets carried at fair value through income statement are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments in Islamic sukuk have expired or have been transferred and the Bank has transferred substantially all risk and rewards of ownership. AFS and FVTPL financial assets are subsequently measured at fair value. HTM financial assets are subsequently carried at amortized cost using the effective profit rate method. Impairment on investments in Islamic sukuk classified as HTM is assessed as outlined in the accounting policy of impairment of financial assets.

Gains and losses arising from changes in the fair value of AFS financial assets are recognised in other comprehensive income, until the investments in Islamic sukuk is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity through other comprehensive income is recognized in the income statement.

### **3 Significant accounting policies** (continued)

#### **3.5 Investments in Islamic sukuk** (continued)

##### **3.5.2 Recognition and measurement** (continued)

Foreign currency gains and losses arising on AFS monetary financial assets are directly recognised in the income statement.

Gains or losses arising from changes in the fair value of the FVTPL category are presented in the income statement within gain on investments in Islamic sukuk in the period in which they arise.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. The fair values of quoted investments in active markets are based on current bid prices, as the Bank considers the bid to be most representative of fair value. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. In rare cases when the fair value of unlisted securities cannot be determined reliably, the securities are carried at cost less impairment.

Profit earned whilst holding investments in Islamic sukuk is reported as part of income from Islamic financing and sukuk in the income statement.

The Bank assesses at each reporting date whether there is objective evidence that an investments in Islamic sukuk are impaired. In the case of equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset are impaired. If any such evidence exists for AFS 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 income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement if there are subsequent increases in fair value. If, in a subsequent period, the fair value of a sukuk instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment is reversed through the income statement.

#### **3.6 Property and equipment**

Property and equipment are stated at cost less accumulated depreciation except for land and buildings, which are carried at fair value based on periodic valuations by an external independent valuer, less subsequent depreciation on buildings.

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

**3 Significant accounting policies** (continued)

**3.6 Property and equipment** (continued)

Increases in the carrying amount arising on revaluation of land and buildings are recognised in the statement of other comprehensive income. Increases that offset previous decreases of the same asset are recognised in the income statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in the statement of other comprehensive income; all other decreases are charged to the income statement. Each year, the difference between the depreciation charge based on the revalued carrying amount of the asset and depreciation charge based on the asset’s original cost or previous revalued amount is transferred from the revaluation reserve to retained earnings.

Land is not depreciated but is tested for impairment (Note 3.9). Depreciation on other fixed assets is calculated on the straight-line method to write down the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	25
Leasehold improvements	10
Furniture, fittings and equipment	5
Vehicles	5
Computer equipment and software	3-5

The asset’s residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Capital work in progress is stated at cost incurred from the date of commencement of the project to the date on which it is commissioned. When commissioned, capital work in progress is transferred to the appropriate category of property and equipment and depreciated in accordance with the Bank’s accounting policies.

**3.7 Investment property**

Investment property comprises property held for rental yields and for capital appreciation. It is not held for purposes of the Bank’s own use as part of property and equipment. Investment property is initially recognized at cost, including transaction expenses. Subsequent to initial recognition, investment property is carried at fair value.

Fair value of the investment property is determined on the basis of valuation undertaken by an independent valuer who holds a recognized and relevant qualification and has recent experience in the location and category of the investment property being valued. Gains and losses arising from changes in the fair value are recognized in the income statement in the period in which they arise.

If an item of property and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in other comprehensive income in equity as a revaluation of property and equipment under IAS 16. If a fair value gain reverses a previous revaluation loss, the gain is recognised in the income statement.

### **3 Significant accounting policies** (continued)

#### **3.8 Impairment of investment in Islamic financing instruments**

The Bank 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 Bank 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 the 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 income statement. If an Islamic financing instrument has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

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 Bank's grading process that considers asset type, industry, 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 Islamic financing instruments that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with similar credit risk characteristics. 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 reflect and are 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 and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

### **3 Significant accounting policies** (continued)

#### **3.8 Impairment of investment in Islamic financing instruments** (continued)

When a financial asset is uncollectable, it is written off against the related provision for impairment. If no related provision exists, it is written off to the income statement. Subsequent recoveries are credited to the income statement. If the amount of impairment subsequently decreases due to an event occurring after the write down, the release of the provision is credited to the income statement.

When the terms and conditions of financial assets that have been classified as past due are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether the financial asset remains past due.

#### **3.9 Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 inflows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed for possible reversal of impairment at each reporting date.

#### **3.10 Fiduciary activities**

Assets and the income arising on the Bank's fiduciary activities, where it acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from these financial statements. Income earned by the Bank from its fiduciary services is recognised in accordance with the accounting policy on fees and other income (Note 3.15).

#### **3.11 Customer deposits and amounts due to banks**

Customer deposits and amounts due to banks are initially recognized at fair value less transaction costs. Subsequently, they are measured at amortized cost using the effective profit rate method. Amortized cost is calculated by taking into account any discount or premium on settlement.

### **3 Significant accounting policies** (continued)

#### **3.12 Employee benefits**

##### **i) Defined contribution plan**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the income statement in the periods during which services are rendered by employees.

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security.

##### **ii) Defined benefit plan**

The provision for defined benefit obligation for the end of service benefits due to non-UAE nationals in accordance with the UAE Labour Law is calculated annually using the projected unit credit method in accordance with IAS 19. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using profit rates on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The provision arising is disclosed as 'provision for employee's end of service benefits' in the statement of financial position under 'other liabilities'.

#### **3.13 Provisions**

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

#### **3.14 Revenue recognition on investments in Islamic financing instruments**

Income from Islamic financing and sukuk and Depositors' share of profit are recognized in the income statement for all profit-bearing Islamic financing instruments below using the effective profit rate method.

The effective profit rate method is a method of calculating the amortised cost of a financing asset or liability and of allocating the income from Islamic financing and sukuk and depositors' share of profit. The effective profit rate is the rate that exactly discounts the estimated future cash payments over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financing asset or liability.

### **3 Significant accounting policies** (continued)

#### **3.14 Revenue recognition on investments in Islamic financing instruments** (continued)

##### **3.14.1 Murabahah**

###### *Definition*

An agreement whereby the Bank sells to a customer a physical asset, commodity, goods, or shares, which the Bank has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin. The settlement specified in the agreement is normally either on deferred lump sum basis or an instalment basis.

###### *Revenue recognition*

Income on Murabahah financing is recognized on a time apportioned basis over the period of the Murabahah contract, using the effective profit rate method.

##### **3.14.2 Ijarah**

###### *Definition*

An agreement whereby the Bank (lessor) leases to a customer (lessee) a service or the usufruct of an owned or rented physical asset which either exists currently or is to be constructed in future (forward lease), for a specific period of time and against certain rental instalments. The Ijarah could end by transferring the ownership of the asset to the lessee through an independent mode at the end of the agreement.

###### *Revenue recognition*

Income from Ijarah investments are recognized on a time apportioned basis over the lease term, using the effective profit rate method.

##### **3.14.3 Mudarabah**

###### *Definition*

An agreement between the Bank and its customer where one of them provides the funds and is called Rab al-Mal and the other provides efforts and expertise and is called the Mudarib. The Mudarib is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudarabah profit. The Mudarib is responsible for all losses arising from misconduct, negligence or violation of the conditions of the agreement. In all other instances, the losses are borne by the Rab-al-Mal.

###### *Revenue recognition*

Income or losses on Mudarabah investments, where the Bank is the Rab-al-Mal are recognized on an accruals basis if they can be reliably estimated. Otherwise, income is recognized on distribution by the Mudarib and the losses are recognised upon their declaration by the Mudarib.

### **3 Significant accounting policies** (continued)

#### **3.14 Revenue recognition on investments in Islamic financing instruments** (continued)

##### **3.14.4 Wakalah**

###### *Definition*

An agreement whereby the Bank provides a certain sum of money to an agent who invests it according to specific conditions in return for a fee (a lump sum of money or a percentage above the anticipated profits). Similarly, the Bank also obtains money under wakala agreement which is recognised as a liability in its financial statements.

###### *Revenue recognition*

The estimated income or expenses from a Wakalah is recognized on an accrual basis over the period of the investment as a liability, adjusted by the actual income or expense when received.

##### **3.14.5 Tawarruq**

###### *Definition*

An agreement between two parties, whereby the Bank will, directly or indirectly, buys an asset and immediately sell it to a customer on a deferred payment basis. The Bank on behalf of the customer then sells the same asset to a third party for immediate delivery and payment. The customer is given the sales proceeds and has a deferred payment obligation to the Bank at a marked-up price.

###### *Revenue recognition*

Income or losses on Tawarruq financing are recognized on an accruals basis over the deferred payment period.

##### **3.14.6 Istisna'**

###### *Definition*

An agreement whereby the Bank (Al-Saane') provides funds to a customer (Al-Mustasne) for the development of an asset according to pre-agreed specifications at a specific price and date.

###### *Revenue recognition*

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

### **3 Significant accounting policies** (continued)

#### **3.15 Fees and other income**

Fees and other income from banking services are recognized on an accrual basis as the service is performed, when it is probable that associated economic benefits will be obtained and a reliable estimate of amount can be made.

Foreign exchange income on foreign exchange transactions undertaken on behalf customers is recognised as and when the underlying customer related exchange transactions are completed.

#### **3.16 Zakat**

Zakat is computed in accordance with the Bank's Fatwa and Shari'a Supervisory Board decisions and it is the Bank's shareholders' responsibility to pay the Zakat on their respective share and therefore it is not recorded in the financial statements of the Bank.

#### **3.17 Allocation of profit**

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

#### **3.18 Financial guarantees**

Financial guarantees are initially recognized in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. The premium received is recognized in the income statement over the life of the guarantee.

#### **3.19 Government grants**

Non-monetary grants in the form of land received from the government are initially recognized at fair value and credited to the income statement when there is reasonable assurance that the grant will not be revoked.

#### **3.20 Repossessed properties**

When the Bank acquires and becomes the legal owner of a collateralized property against full and final settlement of an Islamic financing contract, the respective contract is terminated, the related outstanding balance is de-recognised and property is recognised at the carrying amount of the Islamic financing. If the fair value of the repossessed property is lower than the carrying amount of the outstanding Islamic financing balance, the balance is first impaired to the extent of the shortfall. The subsequent measurement will depend on the intended use and classification of the repossessed property as follows:

- The property is classified as "Investment property" (Note 3.7) in case of indeterminate use, capital appreciation and rental yield;
- The property is classified as "Property and equipment" (Note 3.6) if the Bank intends to retain the property for self-use.
- The property is classified as "Non-current asset held for sale" and measured at the lower of its carrying amount (which will be the fair value at the effective date of re-possession) and

fair value less costs to sell, if sale of the property is highly probable, management is committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan is initiated.

### 3 Significant accounting policies (continued)

#### 3.21 Islamic derivative financing instruments

##### *Islamic swaps*

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

Islamic derivatives financing instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

### 4 Cash and balances with the UAE Central Bank

	2014 AED'000	2013 AED'000
Cash in hand	124,467	82,185
Balances with the UAE Central Bank:		
- Current account	635,887	606,699
- Certificate of deposits	1,050,000	2,000,000
- Statutory deposits	1,581,330	803,012
	<u>3,391,684</u>	<u>3,491,896</u>

The statutory deposits with the UAE Central Bank are not available to finance the day to day operations of the Bank, except in a crisis situation. Cash in hand, current account balances and statutory deposits with the UAE Central Bank are non-profit bearing. Certificates of deposit with the UAE Central Bank carry a profit rate of 0.08% - 0.39% (2013: 0% - 0.08%) per annum.

#### 4 Cash and balances with the UAE Central Bank (continued)

Cash and cash equivalents include the following for the purposes of the statement of cash flows

	2014 AED'000	2013 AED'000
Cash and balances with the UAE Central Bank	3,391,684	3,491,896
Due from banks	2,992,166	2,340,657
Due to banks	(542,223)	(853,218)
	<u>5,841,627</u>	<u>4,979,335</u>
Less: Statutory deposits with the UAE Central Bank	(1,581,330)	(803,012)
Less: Balances having original maturity more than 3 months:		
- Certificate of deposits	(500,000)	-
- Net due from banks	(1,577,632)	(1,319,320)
Cash and cash equivalents	<u><u>2,182,665</u></u>	<u><u>2,857,003</u></u>

#### 5 Due from banks

	2014 AED'000	2013 AED'000
Current accounts with banks	315,264	171,190
Deposits with banks	1,290,896	904,565
Export bills	1,386,006	1,264,902
	<u>2,992,166</u>	<u>2,340,657</u>

#### 6 Investments in Islamic financing instruments

	2014 AED'000	2013 AED'000
Wakalah	400,000	500,000
Ijarah	3,618,148	3,085,525
Murabahah	15,527,996	12,184,266
	<u>19,546,144</u>	<u>15,769,791</u>
Gross investments in Islamic financing instruments	19,546,144	15,769,791
Less : allowance for impairment	(1,509,285)	(1,424,576)
Net investments in Islamic financing instruments	<u><u>18,036,859</u></u>	<u><u>14,345,215</u></u>

## 6 Investments in Islamic financing instruments (continued)

Movement in allowance for impairment:

	2014 AED'000	2013 AED'000
At 1 January	1,424,576	1,615,634
Charge for the year	<u>122,593</u>	<u>43,850</u>
	1,547,169	1,659,484
Written off during the year	<u>(37,884)</u>	<u>(234,908)</u>
At 31 December	<u><u>1,509,285</u></u>	<u><u>1,424,576</u></u>

The investments in Islamic financing instruments are further analysed as follows:

	2014 AED'000	2013 AED'000
Performing	17,735,186	13,930,644
Past due but not impaired	380,969	339,901
Impaired	<u>1,429,989</u>	<u>1,499,246</u>
Gross investments in Islamic financing instruments	19,546,144	15,769,791
Less : allowance for impairment	<u>(1,509,285)</u>	<u>(1,424,576)</u>
Net investments in Islamic financing instruments	<u><u>18,036,859</u></u>	<u><u>14,345,215</u></u>

Below is the analysis of impaired balances:

	2014 AED'000	2013 AED'000
Impaired but not past due	95,129	89,630
Past due and impaired	<u>1,334,860</u>	<u>1,409,616</u>
	<u><u>1,429,989</u></u>	<u><u>1,499,246</u></u>

Summary of past due but not impaired:

	2014 AED'000	2013 AED'000
0 – 29 days	225,089	230,018
30 – 59 days	78,867	70,609
60 – 89 days	50,066	23,674
90 days and above	<u>26,947</u>	<u>15,600</u>
	<u><u>380,969</u></u>	<u><u>339,901</u></u>

## 6 Investments in Islamic financing instruments (continued)

Economic sector risk concentration (refer to note 25 for related party credit risk concentration) of investments in Islamic financing instruments is as follows:

	2014 AED'000	2013 AED'000
Construction & real estate	2,116,332	1,686,426
Financial institutions	3,645,195	4,354,145
Manufacturing	650,566	725,228
Consumer financings and credit cards	5,196,998	3,962,361
Trade	4,027,390	1,864,562
Transport, storage and communication	1,766,855	1,352,720
Other services	2,142,808	1,824,349
Gross investment in Islamic financing instruments	<u>19,546,144</u>	<u>15,769,791</u>
Less: allowance for impairment	<u>(1,509,285)</u>	<u>(1,424,576)</u>
Net investment in Islamic financing instruments	<u><u>18,036,859</u></u>	<u><u>14,345,215</u></u>

## 7 Investments in Islamic sukuk

	2014 AED'000	2013 AED'000
Available-for-sale	1,853,507	1,270,574
Held to maturity	734,949	327,104
Held for trading	292,807	213,611
	<u><u>2,881,263</u></u>	<u><u>1,811,289</u></u>

At 31 December 2014, the fair value of the held to maturity Islamic sukuk portfolio was AED 737 million (2013: AED 332 million).

During the year ended 31 December 2014, the Bank recognised a net fair value loss on available-for-sale investments in Islamic sukuk of AED 18.5 million (2013: loss of AED 3.2 million) in other comprehensive income under "cumulative changes in fair value of available-for-sale investment in Islamic sukuk".

The Bank holds certain Islamic sukuk in a fiduciary capacity on behalf of customers without recourse to itself and, accordingly, these sukuk are not included in the Bank's Islamic sukuk portfolio as at 31 December 2014 (Note 24).

## 8 Investment properties

	2014 AED'000	2013 AED'000
At 1 January	213,800	83,948
Additions during the year	54,745	124,000
Transfer from property and equipment (Note 10 (ii))	969,666	-
Change in fair value during the year	28,356	5,852
At 31 December	<u>1,266,567</u>	<u>213,800</u>

The carrying value of investment properties represents their fair value as determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS"). The basis of determination of fair value are the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

## 9 Other assets

	2014 AED'000	2013 AED'000
Accrued income on investments in Islamic financing and sukuk	160,962	131,270
Due from related parties (Note 25)	14,304	9,659
Equity investments in related companies (Note (i) below)	28,530	26,530
Prepayments and advances	12,619	5,956
Others	11,424	6,320
	<u>227,839</u>	<u>179,735</u>

- (i) Equity investments in related companies at 31 December 2014 and 31 December 2013, held as available-for-sale financial assets, represent the Bank's share of its investment in the following entities:

	Shareholding structure	
	<i>Noor Bank P.J.S.C.</i>	<i>Noor Investment Group LLC</i>
Noor Takaful Family P.J.S.C.	10%	90%
Noor Takaful General P.J.S.C.	10%	90%
Premium Marketing LLC	10%	90%
Noor BPO LLC	30%	70%

## 10 Property and equipment

	Land	Buildings	Leasehold improvements	Vehicle	Computer and office equipment	Capital work in progress	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<b>Cost / fair value</b>							
At 1 January 2014	621,192	118,435	36,250	1,745	160,205	11,943	949,770
Revaluation surplus	348,474	48,687	-	-	-	-	397,161
Additions during the year	-	5,698	-	-	26,384	9,633	41,715
Transfer to investment properties (note ii below)	(969,666)	-	-	-	-	-	(969,666)
Transfers	-	-	-	-	8,395	(8,395)	-
At 31 December 2014	-	172,820	36,250	1,745	194,984	13,181	418,980
<b>Accumulated depreciation</b>							
At 1 January 2014	-	18,153	18,231	839	143,648	-	180,871
Charge for the year	-	4,728	3,625	300	12,879	-	21,532
At 31 December 2014	-	22,881	21,856	1,139	156,527	-	202,403
<b>Net book value</b>							
At 31 December 2014	-	149,939	14,394	606	38,457	13,181	216,577

The fair value of the Bank's land and buildings was determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS"). From the resultant re-valuation gain, an amount of AED 120.3 million (2013: AED 7.6 million) has been recognised in the revaluation reserve under "other comprehensive income" and an amount of AED 276.8 million (2013: AED 54.9 million) has been recognised in the income statement, which represents reversal of impairment loss on land and buildings previously recognised in the income statement.

## 10 Property and equipment (continued)

	Land AED'000	Buildings AED'000	Leasehold improvements AED'000	Vehicle: AED'000	Computer and office equipment AED'000	Capital work in progress AED'000	Total AED'000
<b>Cost / fair value</b>							
At 1 January 2013	573,453	103,616	35,273	1,670	149,973	6,534	870,519
Revaluation surplus	47,739	14,819	-	-	-	-	62,558
Additions during the year	-	-	967	325	4,498	11,161	16,951
Transfers	-	-	10	-	5,734	(5,744)	-
Disposals and write-offs	-	-	-	(250)	-	(8)	(258)
At 31 December 2013	621,192	118,435	36,250	1,745	160,205	11,943	949,770
<b>Accumulated depreciation</b>							
At 1 January 2013	-	13,614	14,639	806	128,167	-	157,226
Charge for the year	-	4,539	3,592	283	15,481	-	23,895
Disposals and write-offs	-	-	-	(250)	-	-	(250)
At 31 December 2013	-	18,153	18,231	839	143,648	-	180,871
<b>Net book value</b>							
At 31 December 2013	621,192	100,282	18,019	906	16,557	11,943	768,899

## 10 Property and equipment (continued)

- (i) Buildings are located at Emaar Square, Dubai, and are used as the Bank's Head Office premises;
- (ii) Land comprises certain vacant plots granted by the Government of Dubai to the Bank at various locations in Dubai. During the year ended 31 December 2014, the Bank transferred all plots of land to investment properties since it no longer intends to use these plots of land for its own use (Refer note 8).

## 11 Customer deposits

	2014 AED'000	2013 AED'000
Wakalah – term	11,515,775	12,438,696
Qard-E-Hasan - demand	4,962,400	2,960,924
Mudarabah – savings	6,947,933	2,923,730
Mudarabah- term	212,345	304,713
Margin accounts	212,502	35,518
	<u>23,850,955</u>	<u>18,663,581</u>

## 12 Wakalah term deposits

During the year ended 31 December 2014, the Bank prepaid the Wakalah term deposit of AED 771 million which was received from the Ministry of Finance (MoF) during the year ended 31 December 2008. Pursuant to an agreement with the MoF, the Bank had converted this Wakalah term deposit into Tier II capital effective 31 December 2009 for the purpose of regulatory capital calculations and this deposit was amortised to AED 463 million at 31 December 2013. This Wakalah term deposit was due for maturity on 31 December 2016 and had an anticipated profit rate for each year until maturity.

As at 31 December 2014, Wakalah term deposits comprise Tier II deposits obtained from local financial institutions (including related parties – see Note 25) in the UAE. These deposits have maturity tenures of 10 years from the date of the respective agreements and carry an expected profit rate for each year until maturity but can be repaid by the Bank either in full or part on any profit payment date any time after 5 years from the date of the agreement. The undrawn portion of these deposits amounted to AED 165 million as of 31 December 2014. The Central Bank of UAE has approved to consider the Wakalah term deposits as Tier II capital for regulatory capital calculations effective from the date of the agreement.

## 13 Due to banks

	2014 AED'000	2013 AED'000
Investment deposits	240,585	576,661
Current accounts	301,638	276,557
	<u>542,223</u>	<u>853,218</u>

## 14 Other liabilities

	2014 AED'000	2013 AED'000
Accrued expenses	126,401	100,466
Sundry disbursements payable	281,983	66,637
Accrued depositors' share of profit	72,393	62,896
Managers cheques	107,858	57,549
Employees' end of service benefits (Note 23)	23,076	17,612
Deferred income from Islamic financing and sukuk	38,875	11,120
Late payment amount collected (Note (i) below)	7,439	5,589
Switch fee payable	5,083	4,133
Sundry collection accounts	33,896	24,159
Promise to buy or sell currency (Note (ii) below)	11,897	641
Other payables	93,459	69,715
	<u>802,360</u>	<u>420,517</u>

- (i) Late payment amount collected pertains to the delay in payments by customers. The Fatwa and Shari'a Supervisory Board decides on an amount allowable to be taken by the Bank to cover the actual cost due to the delay in payment by the customers. The remaining amount and any such additional income received, which the Fatwa and Shari'a Supervisory Board determines to be non-sharia compliant, is donated to charity under its supervision.
- (ii) Represents mark-to-market fair valuation of Promise to buy or sell currency contracts held by the Bank for its currency risk management purposes. The outstanding commitments on such contracts amounted to AED 3.1 billion at 31 December 2014 (31 December 2013: AED 2.7 billion).

## 15 Share capital

	2014 AED'000	2013 AED'000
<i>Authorised, issued and fully paid up share capital:</i>		
3,307.9 million shares (2013: 3,307.9 million shares)		
of AED 1 each	3,307,895	3,307,895
Subscribed share capital (refer note (i) below)	50,000	-
	<u>3,357,895</u>	<u>3,307,895</u>

- (i) The subscribed share capital at 31 December 2014 had been subscribed to by NIG at par value. The subscribed share capital is fully paid up and approved by the Board of Directors of the Bank and the UAE Central Bank. The statutory share capital of the Bank will be increased in 2015 after completion of the necessary administrative and legal formalities.
- (ii) During the year ended 31 December 2013, the subscribed share capital that had been subscribed to by NIG (Note 1) at par value in 2012 has been converted into the statutory share capital of the Bank upon completion of the necessary administrative and legal formalities.
- (iii) The Board of Directors of the Bank have proposed dividends of 10% for the year ended 31 December 2014 (2013: nil).

## 16 Statutory reserve

The UAE Federal Law No. 8 of 1984 (as amended), and the UAE Union Law No. 10 of 1980 (as amended) and the Articles of the Bank, require that 10% of the net profit for the year should be transferred to a statutory reserve until such time as the balance in the reserve equals 50% of the issued share capital. Accordingly, an amount of AED 67.8 million (2013: AED 25.5 million) has been transferred to the statutory reserve for the year ended 31 December 2014. This reserve is not available for distribution.

## 17 Income from Islamic financing and sukuk

	2014 AED'000	2013 AED'000
Wakalah	23,005	19,525
Ijarah	153,497	120,465
Murabahah	626,165	457,310
	<hr/>	<hr/>
	802,667	597,300
Profit income on Islamic sukuk	92,498	81,386
	<hr/>	<hr/>
Total income from Islamic financing and sukuk	<u>895,165</u>	<u>678,686</u>

## 18 Depositors' share of profit

	2014 AED'000	2013 AED'000
Wakalah - term	220,044	256,762
Mudarabah - savings	15,498	9,832
Mudarabah - term	2,871	4,336
	<hr/>	<hr/>
	238,413	270,930
	<hr/>	<hr/>

## 19 Fee and other income, net of charges

	2014 AED'000	2013 AED'000
Facility arrangement and processing fees	115,379	94,362
Transactional & deposit related fees	64,392	33,789
Net foreign exchange income	53,634	36,988
Trade services related fees	52,429	33,590
Fees from credit cards	9,208	10,800
Other income	1,531	2,117
	<hr/>	<hr/>
	<u>296,573</u>	<u>211,646</u>

## 20 Gain on investments in Islamic sukuk

	2014 AED'000	2013 AED'000
Held for trading	10,215	5,957
Available-for-sale – realised gains	20,775	1,354
	<u>30,990</u>	<u>7,311</u>

## 21 Staff costs

	2014 AED'000	2013 AED'000
Salaries and allowances	286,661	214,474
Provision for employees' end of service benefits (Note 23)	7,090	4,487
Outsourced staff cost	25,874	-
Others	20,382	16,017
	<u>340,007</u>	<u>234,978</u>

## 22 General and administrative expenses

	2014 AED'000	2013 AED'000
Facilities management	49,003	34,564
IT related expenses	24,439	22,425
Marketing and advertisement	17,054	39,759
Legal and professional	12,382	11,571
Communication costs	4,411	3,797
Printing and stationery	7,603	5,592
Travelling expenses	2,754	1,522
Other expenses	9,624	10,161
	<u>127,270</u>	<u>129,391</u>

## 23 Provision for employees' end of service benefits

	2014 AED'000	2013 AED'000
At 1 January	17,612	13,662
Provided during the year	7,090	4,487
Paid during the year	(1,626)	(537)
<b>At 31 December</b>	<u>23,076</u>	<u>17,612</u>

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at the reporting date, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using a discount rate of 4.27% (2013: 4.48%). Management has assumed average annual increment/promotion costs of 3.0 % (2013: 3.0 %). The present value of the obligation as at 31 December 2014 is not materially different from the provision computed in accordance with the UAE Labour Law.

## 24 Fiduciary assets

At 31 December 2014, the Bank held Islamic sukuk with a market value of AED 764 million (2013: AED 684 million) in a fiduciary capacity on behalf of customers' without recourse to itself. Accordingly, then Islamic sukuk are not included as part of the Bank's own Islamic sukuk portfolio (Note 7).

## 25 Related party balances and transactions

The Bank, in the normal course of business, enters into transactions with individuals and other business enterprises that fall within the definition of a related party as defined in IAS 24, Related party Disclosures. Significant balances and transactions with related parties are as follows:

	31 December 2014 AED'000	31 December 2013 AED'000
<b>Related party balances:</b>		
Investment in Islamic financing instruments:		
- Shareholders and other related parties (including certain Government related entities)	730,629	3,956,570
- Key management personnel	12,703	4,894
	743,332	3,961,464
Customer deposits:		
- Shareholders and other related parties	256,595	777,489
- Key management personnel	62,802	36,928
	319,397	814,417
Wakalah term deposits (refer note 12)	34,000	-
Due from related parties and other assets	42,834	36,189
Due to related parties and other liabilities	2,000	-
Accrued income from Islamic financing instruments	484	13,936
Accrued depositors' share of profit	8,531	7,479
	Year ended 31 December 2014 AED'000	2013 AED'000
<b>Related party transactions:</b>		
Income from Islamic financing and sukuk	26,237	76,082
Depositor's share of profit	6,282	5,725
Staff costs recharged	87,686	65,969
Remuneration to key management personnel	21,600	20,190
Fee and other income	9,539	1,466

The Bank has reassessed the criteria it had adopted in identifying related party relationships and has excluded certain relationships which were previously disclosed on a voluntary basis although such relationships would qualify for exemption from the definition of related parties under IAS 24.

## 26 Commitments and contingent liabilities

### (a) Contingent liabilities

	2014 AED'000	2013 AED'000
Letters of credit	739,612	641,678
Guarantees	2,797,214	2,134,249
Undrawn credit commitments – Revocable	4,537,927	3,360,605
Undrawn credit commitments – Irrevocable	598,529	370,523
Total	<u>8,673,282</u>	<u>6,507,055</u>

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as financings. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Undrawn credit commitments represent unused portions of authorisations to extend credit in the form of financing, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss for an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers' maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of finance authorisations being drawn by the customer and, second, from these drawings subsequently not being paid as due. The Bank monitors the term to maturity of the credit commitments because longer term commitments generally have a greater degree of credit risk than the shorter term commitments. The total outstanding contractual amount of the commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

### (b) Capital commitments

At 31 December 2014, the bank has capital commitments of AED 10 million (2013: AED 35 million mainly relating to purchase of office units) mainly relating to purchase of furniture, fixtures, computer equipment and development/up-gradating of software.

## 27 Risk management

The Bank takes financial risk under the following categories in its day to day operations:

- Credit risk
- Liquidity risk
- Market risks
- Operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

### **Risk management philosophy and framework**

The Bank'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 Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, emerging best practices and products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the following committees, which are responsible for overseeing, developing and monitoring the Bank's risk management policies in their specified areas:

#### *Executive Committee*

The Executive Committee is responsible for ensuring that the Bank has an adequate and appropriate system of risk management and internal controls with the support of the Audit Committee and Risk Committee.

#### *Risk Committee*

The Risk Committee is responsible for providing an oversight on the health of the Bank's credit portfolio as well as for compliance with overall risk management policies and procedures established within the Bank. The Risk Committee comprises of at least three members (including at least one non-executive director and one 'risk expert' as determined by the Board of Directors) and the Chief Risk Officer is a permanent invitee.

## **27 Risk management** (continued)

### **Risk management philosophy and framework** (continued)

#### *Audit Committee*

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, compliance with laws and regulations, compliance with code of conduct and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

#### *Credit Committee*

The Credit Committee is responsible for taking credit decisions, recommending credit policies, and the future direction of the credit activities in the Bank. The Board of Directors has delegated its authority to Credit Committee to approve, sub-delegate, direct, monitor and review the Bank's financing activities, and to ensure that the credit policies are adhered to, and credit operations are conducted in the most effective manner.

#### *Operational Risk Committee*

The Operational Risk Committee is responsible for overseeing, managing and ensuring that all aspects of Operational Risk policies and standards are effectively implemented, and the framework to monitor and report Operational Risk issues is functioning effectively to protect the interests of the Bank and promotes high level Operational Risk management culture in the Bank.

#### *Management Committee*

The Management Committee is responsible for overseeing and managing day-to-day business to attain sustained performance excellence, by conscientiously taking into account the prevalent and future risk environment, consistent with the Bank's vision, mission and strategy in accordance with good corporate governance principles, and in line with the significant stakeholders' expectations.

#### *Asset Liability Committee ("ALCO")*

The responsibility of ALCO is to actively monitor and manage committed and outstanding assets and liabilities, and to recommend appropriate funding, investment, and hedging strategies. In addition, the ALCO is also responsible for ensuring continuous liquidity required for growth while complying with the regulatory requirements.

## 27 Risk management (continued)

### 27.1 Credit risk

Credit risk is the risk emanating when a counter party of the Bank does not fulfil its contractual obligation or the quality of an issuer deteriorates. It arises principally from financing, trade finance and treasury activities. The credit process is consistent for all forms of credit risk to a single obligor. Overall exposure is evaluated on an ongoing basis to ensure a broad diversification of credit risk. Potential concentrations by country, product, industry, and risk grade are regularly reviewed to avoid excessive exposure and ensure a broad diversification.

The Bank's total credit portfolio and therefore the maximum exposure to credit risk before collateral held or other credit enhancements is as follows:

	2014 AED'000	2013 AED'000
<b>Credit risk exposures relating to on-balance sheet assets are as follows:</b>		
Due from banks	2,992,166	2,340,657
Investments in Islamic financing instruments	18,036,859	14,345,215
Investment in Islamic sukuk	2,881,263	1,811,289
Other assets (excluding prepayments & advances)	215,220	173,779
	<u>24,125,508</u>	<u>18,670,940</u>
<b>Credit risk exposures relating to off-balance sheet items are as follows:</b>		
Contingencies and commitments	<u>4,135,355</u>	<u>3,146,450</u>

The above table excludes revocable commitments and represents a worst case scenario of credit risk exposure of the Bank at the reporting date without taking into account any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position at the reporting date.

At 31 December 2014, 75% (2013: 77%) of the total maximum exposure arises from investments in Islamic financing instruments for which credit quality and risk concentration are disclosed in Note 6. Balances due from banks are held with reputable organisations within and outside UAE, where the risk of default is considered low.

## 27 Risk management (continued)

### 27.1 Credit risk (continued)

The table below presents an analysis of the investment in Islamic sukuk based on ratings obtained from external rating agencies:

	2014 AED'000	2013 AED'000
AAA to AA-	283,923	5,727
A+ to BBB-	1,918,266	1,256,886
BB+ & below	153,793	72,063
Unrated	525,281	476,613
<b>Total</b>	<b>2,881,263</b>	<b>1,811,289</b>

The unrated investment in Islamic sukuk is mostly with the Government of Dubai and local reputed companies.

Following are the risk management policies adopted by the Bank to ensure credit quality and minimise the risk of concentration.

#### (a) Credit rating and measurement

The risk rating system is the basis for determining the credit risk of the Bank's asset portfolio (except the consumer assets) and thus asset pricing, portfolio management, determining finance loss provisions and reserves and the basis for credit approval authority delegation. A standard numeric credit risk-grading system is being used by the Bank which is based on the Bank's internal estimate of probability of default, with customers or portfolios assessed against a range of quantitative and qualitative factors, including taking into account the counterparty's financial position, past experience and other factors.

Performing clients are rated on a scale of NRR1 to NRR7, each grade being associated with a Probability of Default ("PD"). Non-performing clients are rated NP-1, NP-2 and NP-3, corresponding to the Substandard, Doubtful and Loss classifications as per *Clarifications and Guidelines Manual for Circular No. 28/2012* issued by the UAE Central bank. The Bank's internal credit grades have also been mapped to external agency ratings for better comparison (Refer Note 6).

#### (b) Credit approval

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Bank's Credit Committee ("CC") within the authorities delegated by the Board of Directors.

## **27 Risk management** (continued)

### **27.1 Credit risk** (continued)

#### *(c) Credit monitoring*

The Bank regularly monitors credit exposures and external trends which may impact risk management outcomes. Internal risk management reports are presented to the Chief Risk Officer and Board Risk Committee, containing information on key variables; portfolio delinquency and financing impairment performance.

All Corporate exposures accounts are monitored carefully for performance and reviewed formally on an annual basis or earlier. Bank has robust policies for client visits and monitoring of accounts to make sure that any concerns on the quality of the accounts are addressed well in time. An exposure is categorised as watch list or non-performing as per UAE Central Bank guidelines.

All non-performing accounts are monitored closely by the Remedial Management Unit of the Bank directly reporting to the Chief Risk Officer. Such accounts are re-evaluated and remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exit of the account etc.

With respect to the Bank's consumer portfolio, asset quality is monitored closely with 30/60/90/ days past due accounts and delinquency trends are monitored continuously for each Consumer Product of the Bank. Individual customer behaviour is also tracked which forms an input for future financing decisions. Accounts which are past due are subject to collection process, managed independently by the risk function. Write-off and provisioning of the Consumer portfolio is done strictly as per the UAE Central Bank guidelines.

#### *(d) Credit mitigation*

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools. Additional support in the form of collateral and guarantee is obtained where required. The reliance that can be placed on these credit mitigation resources is carefully assessed in light of issues such as legal enforceability, market value and counterparty risk of the guarantor. Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and letters of credit etc. Risk mitigation policies control the approval of collateral types.

Collateral is valued in accordance with the Bank's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Collateral held against impaired financings is maintained at fair value.

## 27 Risk management (continued)

### 27.1 Credit risk (continued)

#### (d) Credit mitigation (continued)

##### *Collateral and other credit enhancements possessed or called upon*

During the year, the Bank obtained assets by taking possession of collateral as follows:

	31 December 2014			31 December 2013		
	Retail AED'000	Corporate and SME AED'000	Total AED'000	Retail AED'000	Corporate and SME AED'000	Total AED'000
Property	47,611	-	47,611	21,895	124,910	146,805
Vehicles	719	-	719	1,270	-	1,270
	<u>48,330</u>	<u>-</u>	<u>48,330</u>	<u>23,165</u>	<u>124,910</u>	<u>148,075</u>

Repossessed collateral is disposed of as per the Bank's approved policy.

#### (e) Offsetting financial instruments

The Bank has not entered in significant master netting arrangement with counterparties which enable them to settle transactions on net basis. In absence of such agreements the financial asset and liabilities are settled on gross basis.

### 27.2 Liquidity risk

Liquidity risk is the risk to the Bank's earnings or capital arising from its inability to meet its obligations as they fall due, without incurring significant costs or losses. A bank's ability to withstand either temporary or longer-term disruptions in its ability to fund some or all of its activities in a timely manner and at a reasonable cost depends on the adequacy of its liquidity contingency plans. The Bank's Asset Liability Committee ("ALCO") actively monitors and manages all committed and outstanding assets and liabilities, to recommend appropriate funding, investment and hedging strategies. In addition to that, ALCO ensures adequate liquidity exists to sustain the growth while complying with regulatory requirements.

## 27 Risk management (continued)

### 27.2 Liquidity risk (continued)

a) *The following table presents the cash flow analysis of remaining contractual maturities of Bank's financial liabilities on an undiscounted basis, relating to both principal and profit payments:*

	Carrying amount AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Total AED'000
<b>At 31 December 2014</b>						
Customer deposits	23,850,955	13,958,179	8,018,677	2,020,858	-	23,997,714
Wakalah term deposits	544,192	-	30,423	121,692	696,306	848,421
Due to banks	542,223	485,332	57,100	-	-	542,432
Other liabilities	763,485	740,409	-	-	23,076	763,485
	<u>25,700,855</u>	<u>15,183,920</u>	<u>8,106,200</u>	<u>2,142,550</u>	<u>719,382</u>	<u>26,152,052</u>
<b>At 31 December 2013</b>						
Customer deposits	18,663,581	10,584,996	7,963,250	325,600	-	18,873,846
Wakalah term deposits	770,921	-	-	811,394	-	811,394
Due to banks	853,218	487,443	-	378,484	-	865,927
Other liabilities	409,397	391,785	-	-	17,612	409,397
	<u>20,697,117</u>	<u>11,464,224</u>	<u>7,963,250</u>	<u>1,515,478</u>	<u>17,612</u>	<u>20,960,564</u>

At 31 December 2014, Customer deposits include an amount of AED 7.6 billion received from five customers (2013: AED 5.6 billion from five customers). At 31 December 2014 customer deposits due for maturity within 3 months include Escrow account balances of AED 1.76 billion and lien marked Qard-E-Hasan (demand) balances of AED 1.78 billion as at 31 December 2014. These deposits are expected to be drawn down after 1 year. Remaining Customer deposits, although contractually short term in nature, tend to be renewed on maturity and expected to remain with the Bank for a longer term.

## 27 Risk management (continued)

### 27.2 Liquidity risk (continued)

#### b) Maturity profile of financial assets and financial liabilities

	Up to 3 months AED'000	3 – 12 months AED'000	1 – 5 years AED'000	More than 5 years AED'000	Total AED'000
<b>At 31 December 2014</b>					
<b>Assets</b>					
Cash and balances with the UAE Central Bank	2,891,684	500,000	-	-	3,391,684
Due from banks	2,196,139	743,377	52,650	-	2,992,166
Investments in Islamic financing instruments	4,082,553	3,208,127	6,466,152	4,280,027	18,036,859
Investments in Islamic sukuk	308,738	614,865	1,311,130	646,530	2,881,263
Other assets	186,690	-	-	28,530	215,220
Total	9,665,804	5,066,369	7,829,932	4,955,087	27,517,192
<b>Liabilities</b>					
Customer deposits	13,922,577	7,922,809	2,005,569	-	23,850,955
Wakalah term deposits	-	-	-	544,192	544,192
Due to banks	485,290	56,933	-	-	542,223
Other liabilities	740,409	-	-	23,076	763,485
Total	15,148,276	7,979,742	2,005,569	567,268	25,700,855
Net liquidity gap	(5,482,472)	(2,913,373)	5,824,363	4,387,819	1,816,337
Cumulative gap	(5,482,472)	(8,395,845)	(2,571,482)	1,816,337	-

## 27 Risk management (continued)

### 27.2 Liquidity risk (continued)

#### b) Maturity profile of financial assets and financial liabilities

	Up to 3 months AED'000	3 – 12 months AED'000	1 – 5 years AED'000	More than 5 years AED'000	Total AED'000
<b>At 31 December 2013</b>					
<b>Assets</b>					
Cash and balances with the UAE Central Bank	2,688,884	803,012	-	-	3,491,896
Due from banks	2,014,369	326,288	-	-	2,340,657
Investments in Islamic financing instruments	1,782,923	3,082,841	5,903,449	3,576,002	14,345,215
Investments in Islamic sukuk	1,484,185	146,376	180,728	-	1,811,289
Other assets	147,249	-	-	26,530	173,779
Total	8,117,610	4,358,517	6,084,177	3,602,532	22,162,836
<b>Liabilities</b>					
Customer deposits	10,508,636	7,051,348	1,103,597	-	18,663,581
Wakalah term deposits	-	-	770,921	-	770,921
Due to banks	485,918	-	367,300	-	853,218
Other liabilities	391,785	-	-	17,612	409,397
Total	11,386,339	7,051,348	2,241,818	17,612	20,697,117
Net liquidity gap	(3,268,729)	(2,692,831)	3,842,359	3,584,920	1,465,719
Cumulative gap	(3,268,729)	(5,961,560)	(2,119,201)	1,465,719	-

## 27 Risk management (continued)

### 27.3 Market risk

Market risk is the potential impact of adverse price movements such as benchmark rates, foreign exchange prices and commodity prices on the earnings/economic value of an asset held by the Bank. The exposure to market risk occurs throughout the contract which may negatively affect the earnings and capital of the Bank. The market risk unit is responsible for monitoring and reporting this risk in the Bank.

#### (a) Profit rate risk

The following table summarises the financial assets and liabilities of the Bank, which are subject to profit rate risk, at carrying amounts categorised by the earlier of contractual re-pricing or maturity dates. The Bank is exposed to profit rate risk as a result of mismatches or gaps in the amount of assets and liabilities that mature or re-price in a given period:

At 31 December 2014	Assets	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Non-profit bearing AED'000	Total AED'000	Profit rate %
	Cash and balances with the UAE Central Bank	550,000	500,000	-	-	2,341,684	3,391,684	0.19
	Due from banks	1,634,307	633,185	52,650	-	672,024	2,992,166	1.87
	Investments in Islamic financing instruments	9,915,833	5,707,315	2,194,932	218,779	-	18,036,859	4.64
	Investments in Islamic sukuk	418,916	621,432	1,213,114	627,801	-	2,881,263	3.94
		<u>12,519,056</u>	<u>7,461,932</u>	<u>3,460,696</u>	<u>846,580</u>	<u>3,013,708</u>	<u>27,301,972</u>	
	<b>Liabilities</b>							
	Customer deposits	7,892,506	7,275,399	245,467	-	8,437,583	23,850,955	1.10
	Wakalah term deposits	-	-	-	544,192	-	544,192	5.51
	Due to banks	<u>183,652</u>	<u>56,933</u>	<u>-</u>	<u>-</u>	<u>301,638</u>	<u>542,223</u>	<u>0.27</u>
		<u>8,076,158</u>	<u>7,332,332</u>	<u>245,467</u>	<u>544,192</u>	<u>8,739,221</u>	<u>24,937,370</u>	
	<b>Net position on balance sheet</b>	<u>4,442,898</u>	<u>129,600</u>	<u>3,215,229</u>	<u>302,388</u>	<u>(5,725,513)</u>	<u>2,364,602</u>	

The impact of 1% change in profit rate's would impact AED 27 million (2013: AED 29 million) on the Bank's income statement for the year ended 31 December 2014. The analysis is based on the assumptions that all other variables will remain constant and income simulation for 1 year forecast.

Similarly, an impact of 1% change in profit rate's would impact AED 110 million (2013: AED 98 million) on the Banks equity for the year ended 31 Dec 2014. The analysis is based on the assumptions that all other variables will remain constant for full maturity horizon.

## 27 Risk management (continued)

### 27.3 Market risk (continued)

#### (a) Profit rate risk (continued)

At 31 December 2013

Assets	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Non-profit bearing AED'000	Total AED'000	Profit rate %
Cash and balances with the UAE Central Bank	100,000	-	-	-	3,391,896	3,491,896	0.08
Due from banks	1,843,179	326,288	-	-	171,190	2,340,657	1.83
Investments in Islamic financing instruments	7,353,088	4,243,867	1,287,793	1,460,467	-	14,345,215	4.53
Investments in Islamic sukuk	-	234,175	1,506,077	71,037	-	1,811,289	2.88
	9,296,267	4,804,330	2,793,870	1,531,504	3,563,086	21,989,057	
<b>Liabilities</b>							
Customer deposits	7,509,149	7,051,347	1,103,597	-	2,999,487	18,663,581	1.34
Wakalah term deposits	-	770,921	-	-	-	770,921	5.25
Due to banks	296,424	-	367,300	-	189,494	853,218	1.49
	7,805,573	7,822,268	1,470,897	-	3,188,981	20,287,720	
<b>Net position</b>	1,490,694	(3,017,938)	1,322,973	1,531,504	374,105	1,701,337	

## 27 Risk management (continued)

### 27.3 Market risk (continued)

#### (b) Foreign currency risk

Foreign currency risk represents the risk of change in the fair value of Islamic financing instruments due to changes in foreign exchange rates. The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows through setting limits on the level of exposure by currency. At the end of the year, the Bank had the following significant net foreign currency exposures:

	Balances in Foreign Currency						Balances in local currency	Total
	US\$ AED'000	QAR AED'000	EUR AED'000	Others AED'000	Sub-total AED'000	AED'000		
<b>At 31 December 2014</b>								
<b>Assets</b>								
Cash and balances with the UAE Central Bank	275,236	-	-	-	275,236	3,116,448	3,391,684	
Due from banks	1,322,094	467,183	59,208	75,666	1,924,151	1,068,015	2,992,166	
Investments in Islamic financing instruments	2,482,763	-	13,622	305,434	2,801,819	15,235,040	18,036,859	
Investments in Islamic sukuk	2,867,877	-	-	-	2,867,877	13,386	2,881,263	
Other assets	50,655	255	687	6,072	57,669	157,551	227,839	
	6,998,625	467,438	73,517	387,172	7,926,752	19,590,440	27,529,811	
<b>Liabilities</b>								
Customer deposits	1,984,812	-	790,084	141,216	2,916,112	20,934,843	23,850,955	
Wakalah term deposits	110,192	-	-	-	110,192	434,000	544,192	
Due to banks	245,409	-	-	-	245,409	296,814	542,223	
Other liabilities	37,450	-	210	-	37,660	725,825	763,485	
	2,377,863	-	790,294	141,216	3,309,373	22,391,482	25,700,855	
Net on-balance sheet foreign currency exposure	4,620,762	467,438	(716,777)	245,956	4,617,379			
Net FX position on account of FX contracts	(3,733,126)	-	780,441	(172,990)	(3,125,675)			
Net FX open position	887,636	467,438	63,664	72,966	1,491,704			

The impact of an 1% increase/decrease in the foreign exchange rates of the Bank's net on-balance sheet items is AED 1.9 million on the Bank's income statement for the year ended 31 December 2014 (2013: AED 1.57 million). The analysis is based on the assumptions that all other factors will remain constant.

## 27 Risk management (continued)

### 27.3 Market risk (continued)

#### (b) Foreign currency risk (continued)

	Balances in foreign currency					Balances in local currency	Total
	US\$	QAR	EUR	Others	Sub-total		
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<b>At 31 December 2013</b>							
<b>Assets</b>							
Cash and balances with the UAE Central Bank	136,579	-	-	-	136,579	3,355,317	3,491,896
Due from banks	1,680,897	163,765	255,761	25,468	2,125,891	214,766	2,340,657
Investments in Islamic financing instruments	1,445,795	-	885	-	1,446,680	12,898,535	14,345,215
Investments in Islamic sukuk	1,783,360	-	-	-	1,783,360	27,929	1,811,289
Other assets	107,545	26	1,557	-	109,128	64,651	173,779
	<u>5,154,176</u>	<u>163,791</u>	<u>258,203</u>	<u>25,468</u>	<u>5,601,638</u>	<u>16,561,198</u>	<u>22,162,836</u>
<b>Liabilities</b>							
Customer deposits	1,420,464	2,017	311,570	43,130	1,777,181	16,886,400	18,663,581
Wakalah term deposits	-	-	-	-	-	770,921	770,921
Due to banks	663,353	-	26	-	663,379	189,839	853,218
Other liabilities	21,862	-	49,116	311	71,289	338,108	409,397
	<u>2,105,679</u>	<u>2,017</u>	<u>360,712</u>	<u>43,441</u>	<u>2,511,849</u>	<u>18,185,268</u>	<u>20,697,117</u>
Net on-balance sheet foreign currency exposure	3,048,497	161,774	(102,509)	(17,973)	3,089,789		
Net FX position on account of FX contracts	(3,067,998)	201,740	103,552	21,938	(2,740,768)		
Net FX open position	<u>(19,501)</u>	<u>363,514</u>	<u>1,043</u>	<u>3,965</u>	<u>349,021</u>		

## **27 Risk management** (continued)

### **27.3 Market risk** (continued)

#### *(c) Price risk*

The Bank is exposed to price risk arising from publicly traded investments in Islamic sukuk.

A present value one basis point (PVBP) increase/decrease in the prices will have an impact of AED 0.95 million on the Bank's investment portfolio for the year ended 31 December 2014 (2013: AED 0.5 million). The analysis is based on the assumptions that all other variables will remain constant.

### **27.4 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 Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in an active market for identical financial instruments.
- Level 2 – Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

## 27 Risk management (continued)

### 27.4 Fair value hierarchy (continued)

The financial instruments and non-financial assets measured at fair value as per the hierarchy are disclosed in the table below:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
<b>As at 31 December 2014</b>			
<b>Financial assets at fair value</b>			
Investments in Islamic sukuk			
- Classified as AFS	1,853,507	-	-
- Classified as Held for Trading	292,807	-	-
	<u>2,146,314</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities</b>			
Promise to buy or sell currency	<u>-</u>	<u>11,987</u>	<u>-</u>
<b>As at 31 December 2013</b>			
<b>Financial assets at fair value</b>			
Investments in Islamic sukuk			
- Classified as AFS	1,270,574	-	-
- Classified as Held for Trading	213,611	-	-
	<u>1,484,185</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities</b>			
Promise to buy or sell currency	<u>-</u>	<u>641</u>	<u>-</u>
<b>As at 31 December 2014</b>			
<b>Non-financial assets at fair value</b>			
Investment properties	-	1,266,567	-
Buildings	-	149,939	-
	<u>-</u>	<u>1,416,506</u>	<u>-</u>
<b>As at 31 December 2013</b>			
<b>Non-financial assets at fair value</b>			
Investment properties	-	213,800	-
Land and buildings	-	721,474	-
	<u>-</u>	<u>935,274</u>	<u>-</u>

## **27 Risk management** (continued)

### **27.4 Fair value hierarchy** (continued)

The different levels for fair values of non-financial assets have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- 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). For investment properties and land and buildings, the fair values have been derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot. (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

At 31 December 2014, the carrying value of the Bank's other assets and liabilities measured at amortised cost, approximate their fair values. There have been no transfers of financial assets and non-financial assets between level 1 and Level 2 during the years ended 31 December 2014 or 31 December 2013.

### **27.5 Operational risk**

Operational risk is the risk of direct or indirect loss arising from inadequate or failed processes, technology and infrastructure within the Bank, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory compliance requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation, assets and personnel with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;

## 27 Risk management (continued)

### 27.5 Operational risk (continued)

- training and professional development of employees for operational risk awareness;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with Bank's operational risk standards is supported by a programme of periodic reviews undertaken by Internal Audit and a dedicated Operational Risk Team. The results of their reviews are discussed with the management of the business unit to which they relate and senior management of the Bank.

### 27.6 Capital management and capital adequacy as per Basel II requirement

The Bank manages its capital considering both regulatory and economic capital. The Bank calculates its risk asset ratio in accordance with requirements and guidelines established by the UAE Central Bank prescribing the ratio of total capital to total risk-weighted assets which is currently set at a minimum of 12 % (2013: 12%). This is in line with the assessment and reporting of capital adequacy ratio in accordance with the Basel II Accord as follows:

	2014 AED'000	2013 AED'000
<b>Tier I Capital</b>		
Share capital	3,307,895	3,307,895
Legal reserves	156,917	63,566
Accumulated losses	(349,535)	(934,270)
Less: Other equity investments	(12,500)	-
	<u>3,102,777</u>	<u>2,437,191</u>
<b>Tier II Capital</b>		
Subordinated term investment (Note 12)	544,192	462,553
General provision	245,334	206,428
Asset revaluation reserve	(19,984)	(1,525)
Less: Other equity investments	(12,500)	-
	<u>757,042</u>	<u>667,456</u>
<b>Deductions from Tier I &amp; Tier II Capital</b>		
Investment in other equity investments (Note 9)	-	(25,000)
	<u>-</u>	<u>(25,000)</u>
<b>Total regulatory capital</b>	<u><u>3,859,819</u></u>	<u><u>3,079,647</u></u>
<b>Risk weighted assets</b>		
Credit risk	19,672,421	16,514,205
Market risk	277,666	85,143
Operational risk	1,373,236	932,890
	<u>21,323,323</u>	<u>17,532,238</u>
<b>Risk weighted assets</b>	<u>21,323,323</u>	<u>17,532,238</u>
<b>Capital adequacy ratio on regulatory capital</b>	18.10%	17.57%
<b>Risk asset ratio on Tier I capital</b>	14.55%	13.90%

## 27 Risk management (continued)

### 27.6 Capital management and capital adequacy as per Basel II requirement (continued)

Asset classes in 2014	Off balance sheet			Credit risk mitigation (CRM)			Risk weighted assets AED'000
	On balance sheet gross outstanding AED'000	net exposure after credit conversion factors (CCF) AED'000	Exposure before CRM AED'000	CRM AED'000	After CRM AED'000		
Claims on sovereigns	4,218,086	-	4,218,086	-	4,218,086	389,375	
Claims on non-central government public sector entities	77,734	-	77,734	-	77,734	855	
Claims on banks	4,124,664	214,981	4,339,645	(123,429)	4,216,215	1,615,716	
Claims on securities firms	-	-	-	-	-	-	
Claims on corporates	13,188,019	3,919,563	17,107,582	(2,990,755)	14,116,827	12,323,934	
Claims included in the regulatory retail portfolio	2,653,969	-	2,653,969	(223,544)	2,430,425	1,869,835	
Claims secured by residential property	2,529,909	110,211	2,640,120	-	2,640,121	1,154,437	
Claims secured by commercial real estate	319,449	-	319,449	-	319,449	319,449	
Past due financing	1,479,476	19,853	1,499,329	-	1,499,329	362,917	
Other assets	2,201,278	-	2,201,278	-	2,201,278	1,635,903	
	<u>30,792,584</u>	<u>4,264,608</u>	<u>35,057,192</u>	<u>(3,337,728)</u>	<u>31,719,464</u>	<u>19,672,421</u>	

The total collateral held by the Bank as CRM includes AED 3.1 billion as cash collateral (2013: AED 1.4 billion as cash collateral). The Bank has rearranged its asset classes during 2013 in accordance with the UAE Central Bank circular no: 3823/2012. Therefore, at 31 December 2014, certain figures have been regrouped or reclassified to conform to the new circular requirements.

## 27 Risk management (continued)

### 27.6 Capital management and capital adequacy as per Basel II requirement (continued)

Asset classes in 2013	Off balance sheet		Credit risk mitigation (CRM)			
	On balance sheet gross outstanding AED'000	net exposure after credit conversion factors (CCF) AED'000	Exposure before CRM AED'000	CRM AED'000	After CRM AED'000	Risk weighted assets AED'000
Claims on sovereigns	3,976,912	-	3,976,912	-	3,976,912	229,794
Claims on non-central government public sector entities	5,583,976	-	5,583,976	-	4,850,220	4,727,047
Claims on banks	3,020,459	125,845	3,146,304	(18,502)	3,127,802	1,824,660
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	5,749,317	1,553,206	7,302,523	(1,504,395)	5,798,128	5,705,342
Claims included in the regulatory retail portfolio	1,345,833	-	1,345,833	-	1,345,833	1,010,417
Claims secured by residential property	1,590,413	7,003	1,597,416	-	1,597,416	823,588
Claims secured by commercial real estate	494,001	-	494,001	-	494,001	494,001
Past due financing	1,527,705	-	1,527,705	-	1,527,705	432,233
Other assets	1,562,920	-	1,562,920	-	1,562,920	1,267,123
	24,851,536	1,686,054	26,537,590	(1,522,897)	25,014,693	16,514,205

## 27 Risk management (continued)

### 27.6 Capital management and capital adequacy as per Basel II requirement (continued)

The capital requirement for market risk under the standardised approach is as follows:

	2014		2013	
	Risk weighted assets AED'000	Capital charge AED'000	Risk weighted assets AED'000	Capital charge AED'000
Profit rate risk	207,877	24,945	83,676	10,041
Foreign exchange risk	69,789	8,375	1,467	176
	<u>277,666</u>	<u>33,320</u>	<u>85,143</u>	<u>10,217</u>

Capital charge for year ended 31 December 2014 has been calculated at 12% (2013: 12%).

## 28 Comparative figures

Certain comparative figures have been reclassified where appropriate to conform to the presentation adopted in the financial statements.

**Noor Islamic Bank P.J.S.C.**

**Directors' report and financial statements  
for the year ended 31 December 2013**

**Directors' report and financial statements  
for the year ended 31 December 2013**

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**Directors' report for the year ended 31 December 2013**

The Board of Directors are pleased to submit their report on the activities of Noor Islamic Bank P.J.S.C. ("the Bank") together with the audited financial statements for the year ended 31 December 2013.

**Principal activities**

The principal activities of the Bank are carrying out banking, financing and investing activities through various Islamic financing instruments such as Murabahah, Wakalah, Tawarruq, Istisna, Islamic sukuk and Ijarah. The activities of the Bank are conducted in accordance with the Islamic Shari'a principles and in compliance with the provisions of the Memorandum and Articles of Association of the Bank.

**Results**

The statement of financial position of the Bank as of 31 December 2013, together with its income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended are set out in the accompanying financial statements.

**Dividends**

The Board of Directors do not propose any dividend for the year ended 31 December 2013.

**Composition of the Board of Directors**

The Board of Directors of the Bank comprised of following individuals during the year ended 31 December 2013:

H.H. Sheikh Ahmed bin Mohammad bin Rashid Al Maktoum (Chairman)  
H.E.Lt. Gen. Musabbeh Rashid Musabbeh Al Fattan (Vice Chairman)  
H.E. Abdullah Bin Mohammed Ghobash\*  
Mr. Soud Ahmad Abdulrahman Ba'alawy  
Mr. Essa Abdulfattah Kazim Al Mulla  
H.E. Sultan Ahmad Sultan bin Sulayem  
Mr. Mohamed Alabbar  
Mr. Abdulla Ahmed Mohd Al Habbai  
Mr. Abdulla Mohd Rashed Al Huraiz\*\*  
Mr. Hussain Ahmad Dhaen Al Qemzi

\* Appointed effective 25 March 2013

\*\* Resigned effective 24 March 2013

**Auditors**

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors on 27 March 2014



.....  
Director



.....  
Director

## **Independent auditors' report to the shareholders of Noor Islamic Bank P.J.S.C.**

### **Report on the financial statements**

We have audited the accompanying financial statements of Noor Islamic Bank P.J.S.C. ("the Bank"), which comprise the statement of financial position as of 31 December 2013 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

**Independent auditors' report to the shareholders of  
Noor Islamic Bank P.J.S.C. (continued)**

**Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on other legal and regulatory requirements**

As required by the UAE Federal Law No (8) of 1984, as amended, we report that:

- a) we have obtained all the information we considered necessary for the purpose of our audit;
- b) the financial statements comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended, and the Articles of Association of the Bank;
- c) the Bank has maintained proper books of account and the financial statements are in agreement therewith;
- d) the financial information included in the Directors' report is consistent with the books of account of the Bank; and
- e) nothing has come to our attention, which causes us to believe that the Bank has breached any of the applicable provisions of the UAE Federal Law No (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2013.

Further, as required by the UAE Union Law No (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

PricewaterhouseCoopers  
27March 2014



Amin H Nasser  
Registered Auditor Number 307  
Dubai, United Arab Emirates

**Statement of financial position**  
as at 31 December 2013

	Note	2013 AED'000	2012 AED'000
<b>ASSETS</b>			
Cash and balances with the UAE Central Bank	4	3,491,896	1,373,748
Due from banks	5	2,340,657	3,016,714
Investments in Islamic financing instruments	6	14,345,215	10,876,914
Investments in Islamic sukuk	7	1,811,289	1,716,282
Investment properties	8	213,800	83,948
Other assets	9	179,735	173,681
Property and equipment	10	768,899	713,293
<b>Total assets</b>		<u>23,151,491</u>	<u>17,954,580</u>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Depositors' account	11	19,434,502	14,823,112
Due to banks	12	853,218	625,435
Other liabilities	13	420,517	322,595
<b>Total liabilities</b>		<u>20,708,237</u>	<u>15,771,142</u>
<b>Equity</b>			
Share capital	14	3,307,895	3,157,895
Subscribed share capital	14	-	150,000
Statutory reserve	15	89,108	63,566
Revaluation surplus on land and buildings	10	7,587	-
Cumulative changes in fair value of available-for-sale Islamic sukuk		(1,525)	1,669
Accumulated losses		(959,811)	(1,189,692)
<b>Total equity</b>		<u>2,443,254</u>	<u>2,183,438</u>
<b>Total liabilities and equity</b>		<u>23,151,491</u>	<u>17,954,580</u>

These financial statements were approved by the Board of Directors on 27 March 2014 and signed on its behalf by:



.....  
Director



.....  
Director

**Income statement***for the year ended 31 December 2013*

	Note	2013 AED'000	2012 AED'000
<b>Income</b>			
Income from Islamic financing and sukuk	16	678,686	592,163
Depositors' share of profit	17	(270,930)	(293,015)
<b>Net income from Islamic financing</b>		<u>407,756</u>	<u>299,148</u>
Fee and other income, net of charges	18	211,646	205,055
Gain on investments in Islamic sukuk	19	7,311	42,448
Change in fair value of investment properties	8	5,852	5,290
<b>Total income</b>		<u>632,565</u>	<u>551,941</u>
<b>Expenses</b>			
General and administration expenses	20	(181,297)	(133,646)
Staff costs	21	(183,072)	(142,599)
Depreciation	10	(23,895)	(33,726)
<b>Total expenses</b>		<u>(388,264)</u>	<u>(309,971)</u>
<b>Net operating profit</b>		244,301	241,970
Impairment charge on Islamic financing instruments	6	(43,850)	(166,394)
Reversal of impairment loss on land and buildings	10	54,972	-
<b>Profit for the year</b>		<u><u>255,423</u></u>	<u><u>75,576</u></u>

**Statement of comprehensive income**  
for the year ended 31 December 2013

	Note	2013 AED'000	2012 AED'000
<b>Profit for the year</b>		255,423	75,576
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to income statement</i>			
- Gain on revaluation of land and buildings	10	7,587	-
<i>Items that may be subsequently reclassified to income statement</i>			
<i>Fair value reserve on available-for-sale Islamic sukuk</i>			
- Net changes in fair value	7	(1,840)	28,764
- Net realised gain transferred to income statement	19	(1,354)	(28,854)
		<u>4,393</u>	<u>(90)</u>
Total other comprehensive income/(loss)		4,393	(90)
<b>Total comprehensive income for the year</b>		<u><u>259,816</u></u>	<u><u>75,486</u></u>

**Statement of changes in equity**  
for the year ended 31 December 2013

	Share capital AED'000	Subscribed share capital AED'000	Statutory reserve AED'000	Revaluation surplus on land & buildings AED'000	Cumulative changes in fair value of available- for-sale investments in Islamic sukuk AED'000	Accumulated losses AED'000	Total AED'000
<b>At 1 January 2012</b>	3,157,895	-	56,008	-	1,759	(1,257,710)	1,957,952
<b>Total comprehensive income for the year</b>							
Profit for the year	-	-	-	-	-	75,576	75,576
Net changes in fair value	-	-	-	-	28,764	-	28,764
Net realised gain transferred to income statement on disposal of available-for-sale investments in Islamic sukuk	-	-	-	-	(28,854)	-	(28,854)
<b>Other equity movements</b>							
Subscription for issued share capital (Note 14)	-	150,000	-	-	(90)	75,576	(75,486)
Transfer to statutory reserve (Note 15)	-	-	7,558	-	-	(7,558)	150,000
<b>At 31 December 2012</b>	3,157,895	150,000	63,566	-	1,669	(1,189,692)	2,183,438
<b>Total comprehensive income for the year</b>							
Profit for the year	-	-	-	-	-	255,423	255,423
Revaluation of land and buildings (Note 10)	-	-	-	7,587	-	-	7,587
Net changes in fair value	-	-	-	-	(1,840)	-	(1,840)
Net realised gain transferred to income statement on disposal of available-for-sale investments in Islamic sukuk	-	-	-	-	(1,354)	-	(1,354)
<b>Other equity movements</b>							
Shares capital issued (Note 14)	150,000	(150,000)	-	-	(3,194)	255,423	259,816
Transfer to statutory reserve (Note 15)	-	-	25,542	-	-	(25,542)	-
<b>At 31 December 2013</b>	3,307,895	-	89,108	7,587	(1,525)	(959,811)	2,443,254

**Statement of cash flows***for the year ended 31 December 2013*

	Note	2013 AED'000	2012 AED'000
<b>Operating activities</b>			
Profit for the year		255,423	75,576
<b>Adjustments for:</b>			
Impairment loss on Islamic financing instruments	6	43,850	166,394
Change in fair value of investment properties	8	(5,852)	(5,290)
Reversal of impairment loss on property	10	(54,972)	-
Property and equipment disposed/written off	10	8	107
Amortisation of discount on Held to Maturity sukuk		1,869	133
Gain on investments in Islamic sukuk		(7,311)	(42,448)
Depreciation of property and equipment	10	23,895	33,726
		<hr/>	<hr/>
Operating cash flows before changes in operating assets and liabilities		256,910	228,198
<b>Changes in operating assets and liabilities:</b>			
Statutory reserve with the UAE Central Bank	4	(329,494)	195,744
Due from banks	5	676,057	(626,833)
Investments in Islamic financing instruments	6	(3,636,151)	182,372
Net proceeds from disposal of/(purchases of) in Islamic sukuk – Held for trading		(24,299)	(88,555)
Other assets	9	(6,054)	189,782
Depositors' account	11	4,611,390	2,963,044
Due to banks	12	227,783	(1,994,747)
Other liabilities	13	97,922	(116,254)
		<hr/>	<hr/>
<b>Net cash generated from operating activities</b>		<b>1,874,064</b>	<b>932,751</b>
<b>Investing activities</b>			
Additions to investment properties	8	-	(60,585)
Purchase of Islamic sukuk - Available for sale investments		(6,308,222)	(5,309,179)
Proceeds from Islamic sukuk - Available for sale investments		5,895,441	5,032,532
Purchase of Islamic sukuk – Held to maturity		(181,189)	-
Maturity proceeds from Islamic sukuk - Held to maturity		525,511	-
Investments in certificate of deposits	4	100,000	(100,000)
Additional investment in other equity investments	9	-	(5,000)
Additions to property and equipment	10	(16,951)	(6,224)
		<hr/>	<hr/>
<b>Net cash from / (used in) investing activities</b>		<b>14,590</b>	<b>(448,456)</b>
<b>Financing activity</b>			
Subscription received towards subscribed share capital	14	-	150,000
		<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>		<b>1,888,654</b>	<b>634,295</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>800,230</b>	<b>165,935</b>
		<hr/>	<hr/>
<b>Cash and cash equivalents at end of the year</b>	4	<b>2,688,884</b>	<b>800,230</b>
		<hr/> <hr/>	<hr/> <hr/>

## **1 Incorporation and principal activities**

Noor Islamic Bank (P.J.S.C.) (“the Bank”) was incorporated on 26 March 2007 as a Public Joint Stock Company under UAE Federal Law No. 8 of 1984 (as amended) and is regulated by the Central Bank of the United Arab Emirates (“UAE”). The Bank has its registered office at Emaar Square, Building No. 1, Sheikh Zayed Road, P.O. Box 8822, Dubai, UAE. The Bank was registered with the Securities and Commodities Authority (“SCA”) on 26 April 2007 and commenced its operations thereafter.

The principal activities of the Bank are carrying out banking, financing and investing activities through various Islamic instruments such as Murabahah, Wakalah, Tawarruq, Ijarah, Istisna’ and Islamic sukuk. The activities of the Bank are conducted in accordance with the Shari’a rules and principles as applied and interpreted by the Bank’s Fatwa and Shari’a Supervisory Board and in compliance with the provisions of the Memorandum and Articles of Association of the Bank.

Noor Investment Group LLC (“NIG”), the parent company, holds 91% of the shareholding in the Bank.

## **2 Basis of preparation**

### **2.1 Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standards Board (IASB).

### **2.2 Basis of measurement**

These financial statements have been prepared under the historical cost basis, except for the fair value measurement of following items in the statement of financial position:

- Financial assets and liabilities held for trading.
- Investments in Islamic sukuk classified as available-for-sale and fair value through income statement.
- Investment properties.
- Land and buildings classified under property and equipment.

### **2.3 Functional and presentation currency**

These financial statements are presented in United Arab Emirates Dirham (“AED”), which is the Bank’s functional currency. Except as indicated, the financial information has been rounded to the nearest thousand.

## **2 Basis of preparation (continued)**

### **2.4 Use of estimates and judgements**

The preparation of the financial statements in conformity with IFRS requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described as follows:

#### *(a) Impairment of investments in Islamic financing instruments*

The Bank also reviews its financing portfolio to assess impairment on a regular basis. In determining whether an impairment loss should be recognised, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence also may include observable data indicating that there has been an adverse change in the collections from customers in a group. Management uses estimates based on historical loss experience for financing with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### *(b) Classification of investments in Islamic sukukas Held-to-Maturity (“HTM”)*

In accordance with IAS 39 guidance, the Bank classifies its investments in Islamic sukuk with fixed or determinable payments and fixed maturities as HTM which requires significant judgment in evaluating Bank’s intention and ability to hold such investments until maturity. Except for certain specific circumstances, any sale or reclassification of a more than insignificant amount of HTM investments would result in the reclassification of all HTM investments as available-for-sale, and would prevent the Bank from classifying investments in Islamic sukuk as HTM for the current and the following two financial years.

#### *(c) Fair valuation of investment properties and land and buildings under property and equipment*

The fair valuation of investment properties and buildings and certain plots of land classified under property and equipment is based on estimated value as determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors (“RICS”). The fair valuation of remaining plots of land is determined by the Dubai Land Department. In undertaking the valuation the valuation experts have made a number of assumptions and relied upon various sources of information. Management reviews the assumptions based on their reasonable knowledge and other information available about the property.

## **2 Basis of preparation (continued)**

### **2.4 Use of estimates and judgements (continued)**

#### *(d) Estimated useful life and residual value of property, plant and equipment*

The Bank's management determines the estimated useful lives and related depreciation charges for its property and equipment at least on an annual basis. The Bank carries out a review of the useful lives of property, plant and equipment at the reporting date and makes necessary changes to the useful life of the property and equipment, if required. Residual value in case of all property and equipment are assumed to be "AED 1".

### **2.5 Changes in accounting policies and disclosures**

#### *(a) New standards, amendments to published standards or IFRIC interpretations effective for the Bank's accounting period beginning on 1 January 2013*

Amendments to IAS 1 'Financial statement presentation' require the Bank to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially re-classifiable to income statement subsequently (reclassification adjustments).

IFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent entity. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

IFRS 11 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted.

IFRS 12 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

IFRS 13 'Fair value measurement' 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.

The disclosure requirements under amendments to IAS 1 and IFRS 13 have included in these financial statements. None of the above other new standards or amendments have a material impact on the Bank's financial statements.

## **2 Basis of preparation (continued)**

### **2.5 Changes in accounting policies and disclosures (continued)**

*(b) New standards and amendments to published standards issued but not effective for the financial year beginning 1 January 2013 and not early adopted by the Bank*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Bank, except the following set out below:

*IFRS 9, 'Financial instruments'*, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. In cases where the fair value option is taken for financial liabilities, IFRS 9 requires that the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. At its November 2013 meeting, the International Accounting Standards Board has tentatively decided that the mandatory effective date of IFRS 9 will be no earlier than annual periods beginning on or after 1 January 2017. The date shown on this item is a 'placeholder' based on this date, and not an actual effective date. The date will be updated with the actual effective date once it is known.

Amendments to IAS 36 'Impairment of assets' have removed certain disclosures requirements for recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment will be effective for the accounting period beginning on or after 1 January 2014.

Amendment to IAS 19, 'Employee benefits' (effective 1 July 2014) clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service.

Management is yet to assess IFRS 9's full impact on the Bank's financial statements. Other IFRSs or IFRIC interpretations that are not yet effective are not expected to have a material impact on the Bank's financial statements.

### **3 Significant accounting policies**

The significant accounting policies set out below have been applied consistently to all periods presented in these financial statements:

#### **3.1 Foreign currency translation**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 recognized in the income statement, as part of other customer related trading income under “fee and other income, net of charges”.

#### **3.2 Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand, money in current and call accounts and placements with original maturity of less than three months, excluding statutory deposits required to be maintained with the UAE Central Bank.

#### **3.3 Due from banks**

Amounts due from banks are initially recognised at fair value and subsequently measured at amortised cost less any amounts written off and provision for impairment, if any. Impairment of amounts due from banks is assessed as outlined in the accounting policy of impairment of financial assets (Note 3.8).

#### **3.4 Investments in Islamic financing instruments**

Investments in Islamic financing instruments are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments that are not quoted in an active market.

Investments in Islamic financing instruments are initially measured at fair value including acquisition charges associated with the investments in Islamic financing instruments, if any.

Investments in Islamic financing instruments are subsequently measured at amortised cost using the effective profit rate method.

Following the initial recognition, subsequent transfers between the various classes of investments in Islamic financing instruments is not ordinarily permissible.

### **3 Significant accounting policies (continued)**

#### **3.5 Investments in Islamic sukuk**

##### **3.5.1 Classification**

The Bank classifies its investments in Islamic sukuk in the following categories: Held-to-Maturity (“HTM”) investments in Islamic sukuk, Available-For-Sale (“AFS”) investments in Islamic sukuk and financial assets at fair value through income statement (“FVTPL”). Management determines the classification of its investments at initial recognition.

###### *Held-to-maturity*

Investments in Islamic sukuk at HTM are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Bank’s management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount from the HTM category, the entire category would be reclassified as AFS.

###### *Available-for-sale*

Investments in Islamic sukuk at AFS are those non-derivative financial assets that are designated as AFS or are not classified as (a) investments in Islamic financing instruments, (b) HTM investments or (c) financial assets at fair value through income statement.

###### *Financial assets and financial liabilities at fair value through the income statement*

Investments in Islamic sukuk at FVTPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

##### **3.5.2 Recognition and measurement**

Regular-way purchases and sales are recognized on trade-date – the date on which the Bank commits to purchase or sell the asset. Investments in Islamic sukuk are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through income statement. Financial assets carried at fair value through income statement are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments in Islamic sukuk have expired or have been transferred and the Bank has transferred substantially all risk and rewards of ownership. AFS and FVTPL financial assets are subsequently measured at fair value. HTM financial assets are subsequently carried at amortized cost using the effective profit rate method. Impairment on investments in Islamic sukuk classified as HTM is assessed as outlined in the accounting policy of impairment of financial assets.

Gains and losses arising from changes in the fair value of AFS financial assets are recognised in other comprehensive income, until the investments in Islamic sukuk are derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity through other comprehensive income is recognized in the income statement.

### **3 Significant accounting policies (continued)**

#### **3.5 Investments in Islamic sukuk(continued)**

##### **3.5.2 Recognition and measurement (continued)**

Gains or losses arising from changes in the fair value of the FVTPL category are presented in the income statement within gain on investments in Islamic sukuk in the period in which they arise.

Foreign currency gains and losses arising on AFS monetary financial assets are directly recognised in the income statement.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. The fair values of quoted investments in active markets are based on current bid prices, as the Bank considers the bid to be most representative of fair value, if the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. In rare cases when the fair value of unlisted securities cannot be determined reliably, the securities are carried at cost less impairment.

Profit earned whilst holding investments in Islamic sukuk is reported as part of income from Islamic financing and sukuk in the income statement.

The Bank assesses at each reporting date whether there is objective evidence that investments in Islamic sukuk are impaired. In the case of equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered in determining a loss on that financial asset previously recognised in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement if there are subsequent increases in fair value. If, in a subsequent period, the fair value of a sukuk instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment is reversed through the income statement.

#### **3.6 Property and equipment**

Property and equipment are stated at cost less accumulated depreciation except for land and buildings, which are carried at fair value based on periodic valuations by an external independent valuer, less subsequent depreciation on buildings.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

**3 Significant accounting policies (continued)**

**3.6 Property and equipment (continued)**

Increases in the carrying amount arising on revaluation of land and buildings are recognised in the statement of other comprehensive income. Increases that offset previous decreases of the same asset are recognised in the income statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in the statement of other comprehensive income; all other decreases are charged to the income statement. Each year, the difference between the depreciation charge based on the revalued carrying amount of the asset and depreciation charge based on the asset's original cost or previous revalued amount is transferred from the revaluation reserve to retained earnings.

Land is not depreciated but is tested for impairment (Note 3.9). Depreciation on other fixed assets is calculated on the straight-line method to write down the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	25
Leasehold improvements	10
Furniture, fittings and equipment	5
Vehicles	5
Computer equipment and software	3-5

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Capital work in progress is stated at cost incurred from the date of commencement of the project to the date on which it is commissioned. When commissioned, capital work in progress is transferred to the appropriate category of property and equipment and depreciated in accordance with the Bank's accounting policies.

**3.7 Investment property**

Investment property comprises property held for rental yields and for capital appreciation. It is not held for purposes of the Bank's own use as part of property and equipment. Investment property is initially recognized at cost, including transaction expenses. Subsequent to initial recognition, investment property is carried at fair value.

Fair value of the investment property is determined on the basis of valuation undertaken by an independent valuer who holds a recognised and relevant qualification and has recent experience in the location and category of the investment property being valued. Gains and losses arising from changes in the fair value are recognized in the income statement in the period in which they arise.

### **3 Significant accounting policies (continued)**

#### **3.8 Impairment of investments in Islamic financing instruments**

The Bank 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 Bank 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 income statement. If Islamic financing instrument has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

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 Bank's grading process that considers asset type, industry, 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 Islamic financing instruments that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with similar credit risk characteristics. 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 reflect and are 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 and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

### **3 Significant accounting policies (continued)**

#### **3.8 Impairment of investments in Islamic financing instruments(continued)**

When a financial asset is uncollectable, it is written off against the related provision for impairment. If no related provision exists, it is written off to the income statement. Subsequent recoveries are credited to the income statement. If the amount of impairment subsequently decreases due to an event occurring after the write down, the release of the provision is credited to the income statement.

When the terms and conditions of financial assets that have been classified as past due are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether the financial asset remains past due.

#### **3.9 Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 have suffered an impairment loss are reviewed for possible reversal of impairment at each reporting date.

#### **3.10 Fiduciary activities**

Assets and the income arising on the Bank's fiduciary activities, where it acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from these financial statements. Income earned by the Bank from its fiduciary services is recognised in accordance with the accounting policy on fees and other income (Note 3.15).

#### **3.11 Depositors' account and amounts due to banks**

Depositors' account and amounts due to banks are initially recognized at fair value less transaction costs. Subsequently, they are measured at amortized cost using the effective profit rate method. Amortized cost is calculated by taking into account any discount or premium on settlement.

### **3 Significant accounting policies (continued)**

#### **3.12 Employee benefits**

##### **i) Defined contribution plan**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the income statement in the periods during which services are rendered by employees.

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security.

##### **ii) Defined benefit plan**

The provision for defined benefit obligation for the end of service benefits due to non-UAE nationals in accordance with the UAE Labour Law is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using profit rates on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The provision arising is disclosed as 'provision for employee's end of service benefits' in the statement of financial position.

#### **3.13 Provisions**

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

#### **3.14 Revenue recognition on investments in Islamic financing instruments**

Income from Islamic financing and sukuk and Depositors' share of profit are recognized in the income statement for all profit-bearing Islamic financing instruments below using the effective profit rate method.

The effective profit rate method is a method of calculating the amortised cost of a financing asset or liability and of allocating the income from Islamic financing and sukuk and depositors' share of profit. The effective profit rate is the rate that exactly discounts the estimated future cash payments over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financing asset or liability.

### **3 Significant accounting policies (continued)**

#### **3.14 Revenue recognition on investments in Islamic financing instruments(continued)**

##### **3.14.1 Murabahah**

###### *Definition*

An agreement whereby the Bank sells to a customer a physical asset, commodity, goods, or shares, which the Bank has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin. The settlement specified in the agreement is normally either on deferred lump sum basis or an instalment basis.

###### *Revenue recognition*

Income on Murabahah financing is recognized on a time apportioned basis over the period of the Murabahah contract, using the effective profit rate method.

##### **3.14.2 Ijarah**

###### *Definition*

An agreement whereby the Bank (lessor) leases to a customer (lessee) a service or the usufruct of an owned or rented physical asset which either exists currently or is to be constructed in future (forward lease), for a specific period of time and against certain rental instalments. The ownership of the leased asset remains in the hands of the Bank throughout the lease period. The Ijarah could end by transferring the ownership of the asset to the lessee through an independent mode at the end of the agreement.

###### *Revenue recognition*

Income from Ijarah investments are recognized on a time apportioned basis over the lease term, using the effective profit rate method.

##### **3.14.3 Mudarabah**

###### *Definition*

An agreement between the Bank and its customer where one of them provides the funds and is called Rab al-Mal and the other provides efforts and expertise and is called the Mudarib. The Mudarib is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudarabah profit. The Mudarib is responsible for all losses arising from misconduct, negligence or violation of the conditions of the agreement. In all other instances, the losses are borne by the Rab-al-Mal.

###### *Revenue recognition*

Income or losses on Mudarabah investments, where the Bank is the Rab-al-Mal are recognized on an accruals basis if they can be reliably estimated. Otherwise, income is recognized on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

### **3 Significant accounting policies (continued)**

#### **3.14 Revenue recognition on investments in Islamic financing instruments (continued)**

##### **3.14.4 Wakalah**

###### *Definition*

An agreement whereby the Bank provides a certain sum of money to an agent who invests it according to specific conditions in return for a fee (a lump sum of money or a percentage above the anticipated profits).

###### *Revenue recognition*

The estimated income from a Wakalah is recognized on an accrual basis over the period of the investment, adjusted by the actual income when received.

##### **3.14.5 Tawarruq**

###### *Definition*

An agreement between two parties, whereby the Bank will, directly or indirectly, buy an asset and immediately sell it to a customer on a deferred payment basis. The Bank on behalf of the customer then sells the same asset to a third party for immediate delivery and payment. The customer is given the sales proceeds and has a deferred payment obligation at a marked-up price to the Bank.

###### *Revenue recognition*

Income or losses on Tawarruq financing are recognized on an accruals basis.

##### **3.14.6 Istisna'**

###### *Definition*

An agreement whereby the Bank (Al-Saane') sells an asset to be developed using its own materials to a customer (Al-Mustasne') according to pre-agreed specification, at a specific price, and date. The asset can be developed directly by the Bank or another party on completion and is delivered to the customer on the agreed date.

###### *Revenue recognition*

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

### **3 Significant accounting policies (continued)**

#### **3.15 Fees and other income**

Fees and other income from banking services provided are recognized on an accrual basis when the service has been provided.

Foreign exchange income is recognised as and when the underlying customer related exchange transactions are completed.

#### **3.16 Zakat**

Zakat is computed in accordance with the Bank's Fatwa and Shari'a Supervisory Board decisions and it is the Bank's shareholders' responsibility to pay the Zakat on their respective share.

#### **3.17 Allocation of profit**

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

#### **3.18 Financial guarantees**

Financial guarantees are initially recognized in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. The premium received is recognized in the income statement over the life of the guarantee.

#### **3.19 Government grants**

Non-monetary grants in the form of land received from the government are initially recognized at fair value and credited to the income statement when there is reasonable assurance that the grant will not be revoked.

#### **3.20 Repossessed property**

In certain circumstances, property is repossessed following the foreclosure on Islamic financings that are in default. When the Bank acquires a property that was originally pledged as collateral in full and final settlement against Islamic financing, the property is measured at the lower of its carrying amount and fair value less costs to sell, if sale of the property is highly probable, management is committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan is initiated. If there is no such intention, the property is classified as investment property (Note 3.7).

### 3 Significant accounting policies (continued)

#### 3.21 Islamic derivative financing instruments

##### a) Promise to Buy or Sell Currencies

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

##### b) Islamic swaps

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

Islamic derivatives financing instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

### 4 Cash and balances with the UAE Central Bank

	2013 AED'000	2012 AED'000
Cash in hand	82,185	100,520
Current account with the UAE Central Bank	606,699	94,710
Certificate of deposits with the UAE Central Bank	2,000,000	705,000
Statutory deposit with the UAE Central Bank	803,012	473,518
	<u>3,491,896</u>	<u>1,373,748</u>
Less: Certificate of deposits having original maturity of more than 3 months	-	(100,000)
Less: Statutory deposit with the UAE Central Bank	<u>(803,012)</u>	<u>(473,518)</u>
Cash and cash equivalents	<u><u>2,688,884</u></u>	<u><u>800,230</u></u>

The statutory deposit with the UAE Central Bank is not available to finance the day to day operations of the Bank, except in crisis situation. Cash in hand, current account balances and statutory deposit with the UAE Central Bank are non-profit bearing. Certificates of deposit with the UAE Central Bank carry a profit rate of 0% - 0.08% (2012: 0% - 0.5%) per annum.

## 5 Due from banks

	2013 AED'000	2012 AED'000
Deposits with banks	904,565	2,638,441
Current accounts with banks	171,190	91,562
Export bills	1,264,902	286,711
	<u>2,340,657</u>	<u>3,016,714</u>

## 6 Investments in Islamic financing instruments

Wakalah	4,315,070	4,105,511
Tawarruq	1,674,046	1,218,141
Ijarah	3,085,525	3,118,688
Murabahah	6,695,150	4,050,208
Gross investments in Islamic financing instruments	15,769,791	12,492,548
Less : allowance for impairment	(1,424,576)	(1,615,634)
Net investments in Islamic financing instruments	<u>14,345,215</u>	<u>10,876,914</u>
Movement in allowance for impairment:		
At 1 January	1,615,634	1,464,092
Charge for the year (refer Note (i) below)	43,850	166,394
	<u>1,659,484</u>	<u>1,630,486</u>
Written off during the year	(234,908)	(14,852)
At 31 December	<u>1,424,576</u>	<u>1,615,634</u>

(i) Charge for the year is recovery/release amounting to AED 240 million.

Investments in Islamic financing instruments that have been restructured or are in the process of restructuring are set out below:

	<u>Year ended 31 December</u>	
	2013 AED'000	2012 AED'000
Corporate and SME	2,391,616	2,040,724
Retail	111,573	129,658
	<u>2,503,189</u>	<u>2,170,382</u>

## 6 Investments in Islamic financing instruments (continued)

The investments in Islamic financing instruments are summarised as follows:

	2013 AED'000	2012 AED'000
Performing	13,930,644	8,370,145
Past due but not impaired	339,901	1,016,505
Impaired	1,499,246	3,105,898
	<u>15,769,791</u>	<u>12,492,548</u>
Gross investments in Islamic financing instruments	15,769,791	12,492,548
Less : allowance for impairment	(1,424,576)	(1,615,634)
	<u>(1,424,576)</u>	<u>(1,615,634)</u>
Net investments in Islamic financing instruments	<u><u>14,345,215</u></u>	<u><u>10,876,914</u></u>

Below is the analysis of impaired balances:

	2013 AED'000	2012 AED'000
Impaired but not past due	89,630	222,878
Past due and impaired	1,409,616	2,883,020
	<u>1,499,246</u>	<u>3,105,898</u>
	<u><u>1,499,246</u></u>	<u><u>3,105,898</u></u>

Summary of past due but not impaired:

	2013 AED'000	2012 AED'000
0 – 29 days	230,018	398,891
30 – 59 days	70,609	39,881
60 – 89 days	23,674	5,151
90 days and above	15,600	572,582
	<u>339,901</u>	<u>1,016,505</u>
	<u><u>339,901</u></u>	<u><u>1,016,505</u></u>

## 6 Investments in Islamic financing instruments (continued)

Economic sector risk concentration (refer to note 24 for related party credit risk concentration) of investments in Islamic financing instruments is as follows:

	2013 AED'000	2012 AED'000
Agriculture and allied activities	220,938	147,813
Construction & real estate	1,829,896	1,978,032
Financial Institutions	4,153,021	4,127,085
Manufacturing	319,626	467,344
Consumer financings and credit cards	3,347,520	2,916,549
Trade	2,786,053	1,251,525
Transport, storage and communication	1,782,856	1,034,165
Mining and quarrying	5,118	10,831
Other services	1,324,763	559,204
	<u>15,769,791</u>	<u>12,492,548</u>
Gross investments in Islamic financing instruments	15,769,791	12,492,548
Less: allowance for impairment	(1,424,576)	(1,615,634)
	<u>14,345,215</u>	<u>10,876,914</u>
Net investments in Islamic financing instruments	<u>14,345,215</u>	<u>10,876,914</u>

## 7 Investments in Islamic sukuk

	2013 AED'000	2012 AED'000
Available-for-sale	1,270,574	859,632
Held to maturity	327,104	673,295
Held for trading	213,611	183,355
	<u>1,811,289</u>	<u>1,716,282</u>

At 31 December 2013, the fair value of the held to maturity Islamic sukuk portfolio was AED 332 million (2012: AED 681 million).

At 31 December 2013, the Bank recognised a net fair value loss on available-for-sale investments in Islamic sukuk of AED 3.2 million (2012: loss of AED 0.09 million) in other comprehensive income under "cumulative changes in fair value of available-for-sale investments in Islamic sukuk".

At 31 December 2012, Islamic sukuk with a market value of AED 283 million were pledged as collateral against a Wakalah deposit from a bank (Note 12).

The Bank holds certain Islamic sukuk in a fiduciary capacity on behalf of customers without recourse to itself and, accordingly, these sukuk are not included in the Bank's Islamic sukuk portfolio as at 31 December 2013 (Note 23).

## 8 Investment properties

	2013 AED'000	2012 AED'000
At 1 January	83,948	18,073
Additions during the year	124,000	60,585
Change in fair value during the year	5,852	5,290
At 31 December	<u>213,800</u>	<u>83,948</u>

The carrying value of investment properties represents their fair value as determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS").

## 9 Other assets

	2013 AED'000	2012 AED'000
Accrued income from Islamic financing and sukuk	137,590	129,759
Due from related parties (Note 24)	9,659	9,063
Equity investments in related companies (Note (i) below)	26,530	26,530
Prepayments and advances	5,956	8,329
	<u>179,735</u>	<u>173,681</u>

- (i) Equity investments in related companies at 31 December 2013 and 31 December 2012, held as available-for-sale financial assets, represent the Bank's share of its investment in the following entities:

	Shareholding structure	
	<i>Noor Islamic Bank P.J.S.C.</i>	<i>Noor Investment Group LLC (Note 1)</i>
Noor Takaful Family P.J.S.C.	10%	90%
Noor Takaful General P.J.S.C.	10%	90%
Premium Marketing LLC	10%	90%
Noor BPO LLC	30%	70%

## 10 Property and equipment

	Land AED'000	Buildings AED'000	Leasehold improvements AED'000	Vehicles AED'000	Computer and office equipment AED'000	Capital work in progress AED'000	Total AED'000
<b>Cost/fair value</b>							
At 1 January 2013	573,453	103,616	35,273	1,670	149,973	6,534	870,519
Revaluation surplus	47,739	14,819	-	-	-	-	62,558
Additions during the year	-	-	967	325	4,498	11,161	16,951
Transfers	-	-	10	-	5,734	(5,744)	-
Disposals and write-offs	-	-	-	(250)	-	(8)	(258)
At 31 December 2013	621,192	118,435	36,250	1,745	160,205	11,943	949,770
<b>Depreciation</b>							
At 1 January 2013	-	13,614	14,639	806	128,167	-	157,226
Charge for the year	-	4,539	3,592	283	15,481	-	23,895
Disposals and write-offs	-	-	-	(250)	-	-	(250)
At 31 December 2013	-	18,153	18,231	839	143,648	-	180,871
<b>Net book value</b>							
At 31 December 2013	621,192	100,282	18,019	906	16,557	11,943	768,899

The fair value of the Bank's land and buildings was determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS") and as reduced by factors attributed to management's assessment. Upon revaluation, an amount of AED 7.6 million has been recognised in the revaluation reserve under "other comprehensive income" and an amount of AED 55 million has been recognised in the income statement, which represents reversal of impairment loss is on land and buildings previously recognised in their income statement.

## 10 Property and equipment (continued)

	Land AED'000	Buildings AED'000	Leasehold improvements AED'000	Vehicles AED'000	Computer and office equipment AED'000	Capital work in progress AED'000	Total AED'000
<b>Cost / fair value</b>							
At 1 January 2012	573,453	103,616	35,110	1,465	148,888	3,325	865,857
Additions during the year	-	-	163	855	1,890	3,316	6,224
Transfers	-	-	-	-	107	(107)	-
Disposals and write-offs	-	-	-	(650)	(912)	-	(1,562)
<b>At 31 December 2012</b>	<b>573,453</b>	<b>103,616</b>	<b>35,273</b>	<b>1,670</b>	<b>149,973</b>	<b>6,534</b>	<b>870,519</b>
<b>Depreciation</b>							
At 1 January 2012	-	9,076	11,118	1,211	103,550	-	124,955
Charge for the year	-	4,538	3,521	245	25,422	-	33,726
Disposals and write-offs	-	-	-	(650)	(805)	-	(1,455)
<b>At 31 December 2012</b>	<b>-</b>	<b>13,614</b>	<b>14,639</b>	<b>806</b>	<b>128,167</b>	<b>-</b>	<b>157,226</b>
<b>Net book value</b>							
At 31 December 2012	573,453	90,002	20,634	864	21,806	6,534	713,293

## 10 Property and equipment (continued)

- (i) Buildings are located at Emaar Square, Dubai, and are used as the Bank's Head Office premises;
- (ii) Land comprises certain vacant plots granted by the Government of Dubai to the Bank at various locations in Dubai and are intended to be held for future use by the Bank.

## 11 Depositors' account

	2013 AED'000	2012 AED'000
Wakalah deposits	13,209,617	11,834,900
Mudarabah – savings	2,038,453	1,039,375
Mudarabah- term	304,713	290,098
Margin accounts	35,518	19,452
Qard-E-Hasan (escrow accounts)	923,487	19,396
Qard-E-Hasan (current accounts)	2,922,714	1,619,891
	<u>19,434,502</u>	<u>14,823,112</u>

Wakalah deposits include an amount of AED 771 million (2012: AED 771 million) received from the Ministry of Finance during the period ended 31 December 2008. During the year ended 31 December 2009, the Bank entered into an agreement with the Ministry of Finance to convert the medium term Wakalah deposit into Tier II capital effective 31 December 2009 for the purpose of regulatory capital calculations. In accordance with the agreement, the deposit is due for maturity on 31 December 2016 and has an anticipated profit rate for each year until maturity. The agreement also contains provisions that the Wakalah deposit shall be converted into Tier I capital, in the event of any default by the Bank.

## 12 Due to banks

	2013 AED'000	2012 AED'000
Investment deposits	576,661	610,078
Current accounts	276,557	15,357
	<u>853,218</u>	<u>625,435</u>

At 31 December 2012, Islamic sukuk with a market value of AED 283 million were pledged as collateral against a Wakalah deposit of AED 186 million obtained from a bank (Note 7).

### 13 Other liabilities

	2013 AED'000	2012 AED'000
Accrued expenses	100,466	73,927
Sundry disbursements payable	66,637	26,035
Accrued depositors' share of profit	62,896	93,293
Managers cheques	57,549	23,270
Employees' end of service benefits(Note 22)	17,612	13,662
Deferred income from Islamic financing and sukuk	11,120	12,629
Late payment amount collected (Note (i) below)	5,589	7,996
Switch fee payable	4,133	3,749
Promise to buy or sell currency (Note (ii) below)	641	1,236
Other payables	93,874	66,798
	<u>420,517</u>	<u>322,595</u>

- (i) Late payment amount collected pertains to the delay in payments by customers. The Fatwa and Shari'a Supervisory Board decides on an amount allowable to be taken by the Group to cover the actual cost due to the delay in payment by the customers. The remaining amount and any such additional income received, which the Fatwa and Shari'a Supervisory Board determines to be non-Shari'a compliant, is donated to charity under its supervision.
- (ii) Represents mark-to-market fair valuation of Promise to buy or sell currency contracts held by the Group for its currency risk management purposes. The outstanding commitments on such contracts amounted to AED 1.4 billion at 31 December 2013 (31 December 2012: AED 1.7 billion).

### 14 Share capital

	2013 AED'000	2012 AED'000
<i>Authorised, issued and fully paid up share capital:</i> 3,307.9 million shares (2012: 3,157.9 million shares) of AED 1 each	3,307,895	3,157,895
Subscribed share capital	-	150,000
	<u>3,307,895</u>	<u>3,307,895</u>

The subscribed share capital at 31 December 2012 had been subscribed to by NIG (Note 1) at par value in 2012 for the purpose of holding the shares, when issued, as trustee for the beneficial interest of the Employee Share Scheme granted to key management personnel of the Bank. The subscribed share capital was fully paid up and approved by the Board of Directors of the Bank and the UAE Central Bank. During the year, the subscribed share capital has been converted into the statutory share capital of the Bank upon completion of the necessary administrative and legal formalities.

#### 14 Share capital (continued)

The Employee Share Scheme has been established for certain key management personnel of the Bank for services provided to NIG and its subsidiaries and, accordingly, any expense resulting from grants of awards under the Employee Share Scheme is borne by NIG.

#### 15 Statutory reserve

The UAE Federal Law No. 8 of 1984 (as amended), and the UAE Union Law No. 10 of 1980 (as amended) and the Articles of the Bank, require that 10% of the net profit for the year should be transferred to a statutory reserve until such time as the balance in the reserve equals 50% of the issued share capital. Accordingly, an amount of AED 25.5 million (2012: 7.6 million) has been transferred to the statutory reserve for the year ended 31 December 2013. This reserve is not available for distribution.

#### 16 Income from Islamic financing and sukuk

	2013 AED'000	2012 AED'000
Tawarruq	148,350	123,733
Wakalah	158,116	145,183
Ijarah	120,465	99,389
Murabahah	170,369	162,796
	<u>597,300</u>	<u>531,101</u>
Profit income on Islamic sukuk	81,386	61,062
	<u>678,686</u>	<u>592,163</u>

#### 17 Depositors' share of profit

Wakalah deposits	256,762	278,422
Mudarabah deposits	4,336	6,829
Mudarabah accounts	9,832	6,648
Murabahah	-	1,116
	<u>270,930</u>	<u>293,015</u>

#### 18 Fee and other income, net of charges

Facility arrangement and processing fees	105,960	66,337
Trade services related fees	38,684	33,216
Fees from credit cards	10,800	15,056
Foreign exchange and other income	56,202	90,446
	<u>211,646</u>	<u>205,055</u>

#### 19 Gain on investments in Islamic sukuk

Held for trading	5,957	13,594
Available-for-sale – realised gains	1,354	28,854
	<u>7,311</u>	<u>42,448</u>

	2013 AED'000	2012 AED'000
<b>20 General and administrative expenses</b>		
Facilities management	46,980	38,861
Outsourced services	60,105	50,254
Marketing and advertisement	39,759	12,820
Legal and professional	10,536	8,989
Communication costs	7,476	7,849
Printing and stationery	5,538	4,809
Other expenses	10,903	10,064
	<u>181,297</u>	<u>133,646</u>
<b>21 Staff costs</b>		
Salaries and allowances	164,004	125,975
Provision for employees' end of service benefits (Note 22)	4,487	5,637
Others	14,581	10,987
	<u>183,072</u>	<u>142,599</u>
<b>22 Provision for employees' end of service benefits</b>		
At 1 January	13,662	12,652
Provided during the year	4,487	5,637
Paid during the year	(537)	(4,627)
<b>At 31 December</b>	<u>17,612</u>	<u>13,662</u>

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at the reporting date, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using a discount rate of 4.48% (2012: 3%). Management has assumed average annual increment/promotion costs of 3% (2012: 5%). The present value of the obligation as at 31 December 2013 is not materially different from the provision computed in accordance with the UAE Labour Law.

### **23 Fiduciary assets**

At 31 December 2013, the Bank held Islamic sukuk with a market value of AED 684 million (2012: AED 284 million) in a fiduciary capacity on behalf of customers' without recourse to itself. Accordingly, then Islamic sukuk are not included as part of the Bank's own Islamic sukuk portfolio (Note 7).

## 24 Related party balances and transactions

The Bank, in the normal course of business, enters into transactions with individuals and other business enterprises that fall within the definition of a related party as defined in IAS 24, Related party Disclosures. Significant balances and transactions with related parties are as follows:

### Related party balances:

	31 December 2013		31 December 2012		Total AED'000
	Shareholders and other related parties AED'000	Key management personnel AED'000	Shareholders and other related parties AED'000	Key management personnel AED'000	
Investments in Islamic financing instruments, net, comprising Dubai Government related entities	3,956,570	4,894	4,154,111	14,993	4,169,104
Depositors' account	777,489	36,928	496,410	47,177	543,587
Due from related parties and other assets (Note 9)	36,189	-	35,593	-	35,593
Accrued income from Islamic financing instruments (Note 9)	13,932	4	29,792	6	29,798
Accrued depositors' share of profit (Note 13)	7,432	47	9,025	388	9,413

## 24 Related party balances and transactions (continued)

### Related party transactions:

	Year ended 31 December 2013		Year ended 31 December 2012		Total AED'000
	Shareholders and other related parties AED'000	Key management personnel AED'000	Shareholders and other related parties AED'000	Key management personnel AED'000	
Income from Islamic financing and sukuk	75,958	124	48,999	150	49,149
Depositors' share of profit	5,673	52	5,059	29	5,088
General and administration expenses recharged	58,425	-	47,091	-	47,091
Remuneration to key management personnel	-	20,190	-	21,001	21,001

## 25 Commitments and contingent liabilities

### (a) Contingent liabilities

	2013 AED'000	2012 AED'000
Letters of credit	641,678	727,682
Guarantees	2,134,249	925,198
Undrawn credit commitments	3,731,128	3,656,760
Total	<u>6,507,055</u>	<u>5,309,640</u>

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as financings. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Undrawn credit commitments represent unused portions of authorisations to extend credit in the form of financing, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss for an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers' maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of finance authorisations being drawn by the customer and, second, from these drawings subsequently not being paid as due. The Bank monitors the term to maturity of the credit commitments because longer term commitments generally have a greater degree of credit risk than the shorter term commitments. The total outstanding contractual amount of the commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

### (b) Capital commitments

At 31 December 2013, the bank has capital commitments of AED 35 million (2012: AED 32 million mainly relating to purchase of office units) mainly relating to purchase of furniture, fixtures, computer equipment and development/up-gradating of software.

## 26 Risk management

The Bank takes financial risk under the following categories in its day to day operations:

- Credit risk
- Liquidity risk
- Market risks
- Operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

### **Risk management philosophy and framework**

The Bank'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 Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, emerging best practices and products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the following committees, which are responsible for overseeing, developing and monitoring the Bank's risk management policies in their specified areas:

#### *Executive Committee*

The Executive Committee is responsible for ensuring that the Bank has an adequate and appropriate system of risk management and internal controls with the support of the Audit Committee and Risk Committee.

#### *Risk Committee*

The Risk Committee is responsible for providing an oversight on the health of the Bank's credit portfolio as well as for compliance with overall risk management policies and procedures established within the Bank. The Risk Committee comprises of at least three members (including at least one non-executive director and one 'risk expert' as determined by the Board of Directors) and the Chief Risk Officer is a permanent invitee.

## 26 Risk management (continued)

### Risk management philosophy and framework (continued)

#### *Audit Committee*

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, compliance with laws and regulations, compliance with code of conduct and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

#### *Credit Committee*

The Credit Committee is responsible for taking credit decisions, recommending credit policies, and the future direction of the credit activities in the Bank. The Board of Directors has delegated its authority to Credit Committee to approve, sub-delegate, direct, monitor and review the Bank's financing activities, and to ensure that the credit policies are adhered to, and credit operations are conducted in the most effective manner.

#### *Operational Risk Committee*

The Operational Risk Committee is responsible for overseeing, managing and ensuring that all aspects of Operational Risk policies and standards are effectively implemented, and the framework to monitor and report Operational Risk issues is functioning effectively to protect the interests of the Bank and promotes high level Operational Risk management culture in the Bank.

#### *Management Committee*

The Management Committee is responsible for overseeing and managing day-to-day business to attain sustained performance excellence, by conscientiously taking into account the prevalent and future risk environment, consistent with the Bank's vision, mission and strategy in accordance with good corporate governance principles, and in line with the significant stakeholders' expectations.

#### *Asset Liability Committee ("ALCO")*

The responsibility of ALCO is to actively monitor and manage committed and outstanding assets and liabilities, and to recommend appropriate funding, investment, and hedging strategies. In addition, the ALCO is also responsible for ensuring continuous liquidity required for growth while complying with the regulatory requirements.

## 26 Risk management (continued)

### 26.1 Credit risk

Credit risk is the risk emanating when a counter party of the Bank does not fulfil its contractual obligation or the quality of an issuer deteriorates. It arises principally from financing, trade finance and treasury activities. The credit process is consistent for all forms of credit risk to a single obligor. Overall exposure is evaluated on an ongoing basis to ensure a broad diversification of credit risk. Potential concentrations by country, product, industry, and risk grade are regularly reviewed to avoid excessive exposure and ensure a broad diversification.

The Bank's total credit portfolio and therefore the maximum exposure to credit risk before collateral held or other credit enhancements is as follows:

	2013 AED'000	2012 AED'000
<b>Credit risk exposures relating to on-balance sheet assets are as follows:</b>		
Due from banks	2,340,657	3,016,714
Investments in Islamic financing instruments	14,345,215	10,876,914
Investments in Islamic sukuk	1,811,289	1,716,282
Other assets	173,779	165,352
	<u>18,670,940</u>	<u>15,775,262</u>
<b>Credit risk exposures relating to off-balance sheet items are as follows:</b>		
Contingencies and commitments	<u>6,507,055</u>	<u>5,309,640</u>

The above table represents a worst case scenario of credit risk exposure of the Bank at the reporting date without taking into account any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position at the reporting date.

At 31 December 2013, 77% (2012: 69%) of the total maximum exposure arises from investments in Islamic financing instruments for which credit quality and risk concentration are disclosed in Note 6. Balances due from banks are held with reputable organisations within and outside UAE, where the risk of default is considered low.

## 26 Risk management (continued)

### 26.1 Credit risk (continued)

The table below presents an analysis of the investments in Islamic sukuk based on ratings obtained from external rating agencies:

	2013 AED'000	2012 AED'000
AA- to AA	513,500	441,653
B+ to BBB+	821,176	968,336
Unrated	476,613	306,293
	<hr/>	<hr/>
<b>Total</b>	<b>1,811,289</b>	<b>1,716,282</b>
	<hr/> <hr/>	<hr/> <hr/>

The unrated investments in Islamic sukuk is with the Government of Dubai and local reputed companies.

Following are the risk management policies adopted by the Bank to ensure credit quality and minimise the risk of concentration.

#### (a) Credit rating and measurement

The risk rating system is the basis for determining the credit risk of the Bank's asset portfolio(except the consumer assets) and thus asset pricing, portfolio management, determining finance loss provisions and reserves and the basis for credit approval authority delegation. A standard numeric credit risk-grading system is being used by the Bank which is based on the Bank's internal estimate of probability of default, with customers or portfolios assessed against a range of quantitative and qualitative factors, including taking into account the counterparty's financial position, past experience and other factors.

Performing clients are rated on a scale of NRR1 to NRR7, each grade being associated with a Probability of Default ("PD"). Non-performing clients are rated NP-1, NP-2 and NP-3, corresponding to the Substandard, Doubtful and Loss classifications as per *Clarifications and Guidelines Manual for Circular No. 28/2012* issued by the UAE Central bank. The Bank's internal credit grades have also been mapped to external agency ratings for better comparison.

#### (b) Credit approval

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Bank's Credit Committee ("CC") within the authorities delegated by the Board of Directors.

## **26 Risk management (continued)**

### **26.1 Credit risk (continued)**

#### *(c) Credit monitoring*

The Bank regularly monitors credit exposures and external trends which may impact risk management outcomes. Internal risk management reports are presented to the Chief Risk Officer and Board Risk Committee, containing information on key variables; portfolio delinquency and financing impairment performance.

All Corporate exposures accounts are monitored carefully for performance and reviewed formally on an annual basis or earlier. Bank has robust policies for client visits and monitoring of accounts to make sure that any concerns on the quality of the accounts are addressed well in time. An exposure is categorised as watch list or non-performing as per UAE Central Bank guidelines.

All non performing accounts are monitored closely by the Remedial Management Unit of the Bank directly reporting to the Chief Risk Officer. Such accounts are re-evaluated and remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exit of the account etc.

With respect to the Bank's consumer portfolio, asset quality is monitored closely with 30/60/90/ days past due accounts and delinquency trends are monitored continuously for each Consumer Product of the Bank. Individual customer behaviour is also tracked which forms an input for future financing decisions. Accounts which are past due are subject to collection process, managed independently by the risk function. Write-off and provisioning of the Consumer portfolio is done strictly as per the UAE Central Bank guidelines.

#### *(d) Credit mitigation*

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools. Additional support in the form of collateral and guarantee is obtained where required. The reliance that can be placed on these credit mitigation resources is carefully assessed in light of issues such as legal enforceability, market value and counterparty risk of the guarantor. Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and letters of credit etc. Risk mitigation policies control the approval of collateral types.

Collateral is valued in accordance with the Bank's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Collateral held against impaired financings is maintained at fair value.

## 26 Risk management (continued)

### 26.1 Credit risk (continued)

#### (d) Credit mitigation (continued)

*Collateral and other credit enhancements possessed or called upon*

During the year, the Bank obtained assets by taking possession of collateral as follows:

	<u>31 December 2013</u>			<u>31 December 2012</u>		
	Retail AED'000	Corporate and SME AED'000	Total AED'000	Retail AED'000	Corporate and SME AED'000	Total AED'000
Property	21,895	124,910	146,805	4,546	-	4,546
Vehicles	1,270	-	1,270	792	-	792
	<u>23,165</u>	<u>124,910</u>	<u>148,075</u>	<u>5,338</u>	<u>-</u>	<u>5,338</u>

Repossessed collateral is disposed of as per the bank's approved policy.

#### (e) Offsetting financial instruments

The Bank has not entered in significant master netting arrangement with counterparties which enable them to settle transactions on net basis. In absence of such agreements the financial asset and liabilities are settled on gross basis.

### 26.2 Liquidity risk

Liquidity risk is the risk to the Bank's earnings or capital arising from its inability to meet its obligations as they fall due, without incurring significant costs or losses. A bank's ability to withstand either temporary or longer-term disruptions in its ability to fund some or all of its activities in a timely manner and at a reasonable cost depends on the adequacy of its liquidity contingency plans. The Bank's Asset Liability Committee ("ALCO") actively monitors and manages all committed and outstanding assets and liabilities, to recommend appropriate funding, investment and hedging strategies. In addition to that, ALCO ensures adequate liquidity exists to sustain the growth while complying with regulatory requirements.

**26 Risk management (continued)**
**26.2 Liquidity risk (continued)**

a) *The following table presents the cash flow analysis of remaining contractual maturities of Bank's financial liabilities on an undiscounted basis, relating to both principal and profit payments:*

	Carrying amount AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Total AED'000
<b>At 31 December 2013</b>						
Depositors' account	19,434,502	10,584,996	7,963,250	1,136,994	-	19,685,240
Due to banks	853,218	487,443	-	378,484	-	865,927
Other liabilities	409,397	391,785	-	-	17,612	409,397
	<u>20,697,117</u>	<u>11,464,224</u>	<u>7,963,250</u>	<u>1,515,478</u>	<u>17,612</u>	<u>20,960,564</u>
<b>At 31 December 2012</b>						
Depositors' account	14,823,112	7,531,819	6,223,961	1,302,587	-	15,058,367
Due to banks	625,435	446,573	187,426	-	-	633,999
Other liabilities	309,966	116,563	179,741	-	13,662	309,966
	<u>15,758,513</u>	<u>8,094,955</u>	<u>6,591,128</u>	<u>1,302,587</u>	<u>13,662</u>	<u>16,002,332</u>

At 31 December 2013, depositors' account, include a concentration of AED 5.6 billion (2012: AED 4.4 billion from five customers) received from five customers. Although the depositors' account due for maturity within 3 months are contractually of a short term nature, these deposits tend to be renewed on maturity and, therefore, remain with the Bank for the longer term.

**26 Risk management (continued)**
**26.2 Liquidity risk (continued)**
*b) Maturity profile of financial assets and financial liabilities*
**At 31 December 2013**
**Assets**

Cash and balances with the UAE Central Bank  
 Due from banks  
 Investments in Islamic financing instruments  
 Investments in Islamic sukuk  
 Other assets

	Upto 3 months AED'000	3 – 12 months AED'000	1 – 5 years AED'000	More than 5 years AED'000	Total AED'000
	3,491,896	-	-	-	3,491,896
	2,014,369	326,288	-	-	2,340,657
	1,782,923	3,082,841	5,903,449	3,576,002	14,345,215
	1,484,185	146,376	180,728	-	1,811,289
	173,779	-	-	-	173,779
<b>Total</b>	<b>8,947,152</b>	<b>3,555,505</b>	<b>6,084,177</b>	<b>3,576,002</b>	<b>22,162,836</b>
<b>Liabilities</b>					
Depositors' accounts	10,508,636	7,051,348	1,874,518	-	19,434,502
Due to banks	485,918	-	367,300	-	853,218
Other liabilities	409,397	-	-	-	409,397
<b>Total</b>	<b>11,403,951</b>	<b>7,051,348</b>	<b>2,241,818</b>	<b>-</b>	<b>20,697,117</b>
<b>Net liquidity gap</b>	<b>(2,456,799)</b>	<b>(3,495,843)</b>	<b>3,842,359</b>	<b>3,576,002</b>	<b>1,465,719</b>
<b>Cumulative gap</b>	<b>(2,456,799)</b>	<b>(5,952,642)</b>	<b>(2,110,283)</b>	<b>1,465,719</b>	<b>-</b>

**26 Risk management (continued)**
**26.2 Liquidity risk (continued)**
*b) Maturity profile of financial assets and financial liabilities*
**At 31 December 2012**

<b>Assets</b>	Upto 3 months AED'000	3 – 12 months AED'000	1 – 5 years AED'000	More than 5 years AED'000	Total AED'000
Cash and balances with the UAE Central Bank	1,273,748	75,000	25,000	-	1,373,748
Due from banks	2,856,444	160,270	-	-	3,016,714
Investments in Islamic financing instruments	892,425	3,139,868	4,942,888	1,901,733	10,876,914
Investments in Islamic sukuk	1,088,833	479,439	148,010	-	1,716,282
Other assets	165,352	-	-	-	165,352
	<u>6,276,802</u>	<u>3,854,577</u>	<u>5,115,898</u>	<u>1,901,733</u>	<u>17,149,010</u>
<b>Liabilities</b>					
Depositors' account	7,488,943	6,858,878	475,291	-	14,823,112
Due to banks	441,787	183,648	-	-	625,435
Other liabilities	309,966	-	-	-	309,966
	<u>8,240,696</u>	<u>7,042,526</u>	<u>475,291</u>	<u>-</u>	<u>15,758,513</u>
Net liquidity gap	<u>(1,963,894)</u>	<u>(3,187,949)</u>	<u>4,640,607</u>	<u>1,901,733</u>	<u>1,390,497</u>
Cumulative gap	<u>(1,963,894)</u>	<u>(5,151,843)</u>	<u>(511,236)</u>	<u>1,390,497</u>	<u>-</u>

## 26 Risk management (continued)

### 26.3 Market risk

Market risk is the potential impact of adverse price movements such as benchmark rates, foreign exchange prices and commodity prices on the earnings/economic value of an asset held by the Bank. The exposure to market risk occurs throughout the contract which may negatively affect the earnings and capital of the Bank. The market risk unit is responsible for monitoring and reporting this risk in the Bank.

#### (a) Profit rate risk

The following table summarises the financial assets and liabilities of the Bank, which are subject to profit rate risk, at carrying amounts categorised by the earlier of contractual re-pricing or maturity dates. The Bank is exposed to profit rate risk as a result of mismatches or gaps in the amount of assets and liabilities that mature or re-price in a given period:

	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Total AED'000	Profit rate %
<b>At 31 December 2013</b>						
<b>Assets</b>						
Cash and balances with the UAE Central Bank	3,491,896	-	-	-	3,491,896	-
Due from banks	2,014,369	326,288	-	-	2,340,657	1.69
Investments in Islamic financing instruments	7,353,088	4,243,867	1,287,793	1,460,467	14,345,215	4.53
Investments in Islamic sukuk	-	234,175	1,506,077	71,037	1,811,289	2.88
	<u>12,859,353</u>	<u>4,804,330</u>	<u>2,793,870</u>	<u>1,531,504</u>	<u>21,989,057</u>	
<b>Liabilities</b>						
Depositors' account	10,508,637	7,822,269	1,103,597	-	19,434,503	1.29
Due to banks	485,918	-	367,300	-	853,218	1.49
	<u>10,994,555</u>	<u>7,822,269</u>	<u>1,470,897</u>	<u>-</u>	<u>20,287,721</u>	
<b>Net position</b>	<u>1,864,798</u>	<u>(3,017,939)</u>	<u>1,322,973</u>	<u>1,531,504</u>	<u>1,701,336</u>	

**26 Risk management (continued)**

**26.3 Market risk (continued)**

**(a) Profit rate risk (continued)**

	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Total AED'000	Rate of return %
<b>At 31 December 2012</b>						
<b>Assets</b>						
Cash and balances with the UAE Central Bank	1,273,748	75,000	25,000	-	1,373,748	0.03
Due from banks	2,856,444	160,270	-	-	3,016,714	0.68
Investments in Islamic financing instruments	6,448,677	3,309,205	1,047,552	71,480	10,876,914	4.18
Investments in Islamic sukuk	180,848	541,386	949,833	44,215	1,716,282	3.51
	<u>10,759,717</u>	<u>4,085,861</u>	<u>2,022,385</u>	<u>115,695</u>	<u>16,983,658</u>	
<b>Liabilities</b>						
Depositors' account	7,488,943	6,858,878	475,291	-	14,823,112	2.02
Due to banks	441,787	183,648	-	-	625,435	1.37
	<u>7,930,730</u>	<u>7,042,526</u>	<u>475,291</u>	<u>-</u>	<u>15,448,547</u>	
Net position	<u>2,828,987</u>	<u>(2,956,665)</u>	<u>1,547,094</u>	<u>115,695</u>	<u>1,535,111</u>	

The impact of an 1% increase/decrease in the profit rate of the Bank's net position is AED 17 million (2012: AED 15 million) on the Bank's equity at 31 December 2013 and income statement for the year ended 31 December 2013. The analysis is based on the assumptions that all other variables will remain constant.

**26 Risk management (continued)**
**26.3 Market risk (continued)**
*(b) Foreign currency risk*

Foreign currency risk represents the risk of change in the fair value of Islamic financing instruments due to changes in foreign exchange rates. The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows through setting limits on the level of exposure by currency. At the end of the year, the Bank had the following significant net foreign currency exposures:

	AED AED'000	US\$ AED'000	EUR AED'000	Others AED'000	Total AED'000
<b>At 31 December 2013</b>					
<b>Assets</b>					
Cash and balances with the UAE Central Bank	3,355,317	136,579	-	-	3,491,896
Due from banks	214,766	1,680,897	255,761	189,233	2,340,657
Investments in Islamic financing instruments	12,720,685	1,623,645	885	-	14,345,215
Investments in Islamic sukuk	27,929	1,783,360	-	-	1,811,289
Other assets	64,651	107,545	1,557	26	173,779
	<u>16,383,348</u>	<u>5,332,026</u>	<u>258,203</u>	<u>189,259</u>	<u>22,162,836</u>
<b>Liabilities</b>					
Depositors' account	17,657,321	1,420,464	311,570	45,147	19,434,502
Due to banks	189,839	663,353	26	-	853,218
Other liabilities	338,108	21,862	49,116	311	409,397
	<u>18,185,268</u>	<u>2,105,679</u>	<u>360,712</u>	<u>45,458</u>	<u>20,697,117</u>
Net on-balance sheet foreign currency exposure	<u>(1,801,920)</u>	<u>3,226,347</u>	<u>(102,509)</u>	<u>143,801</u>	<u>1,465,719</u>

At 31 December 2013, the net on-balance sheet foreign currency exposure under "others" mainly relates to QAR 157 million equivalent to AED 158 million (2012: GBP 74 million equivalent to AED 439 million). In order to manage the net open exposure in QAR and EUR as of 31 December 2013, the Bank has taken contracts to buy/sell QAR 200 million equivalent to AED 202 million and EUR 20 million equivalent to AED 104 million, respectively (2012: Taken contracts to sell GBP 73 million equivalent to AED 432 million) (Refer Note 13 (ii)).

The impact of an 1% increase/decrease in the foreign exchange rates of the Bank's net on-balance sheet items is AED 0.4 million on the Bank's equity at 31 December 2013 and income statement for the year ended 31 December 2013 (2012: AED 4 million). The analysis is based on the assumptions that all other factors will remain constant.

**26 Risk management(continued)****26.3 Market risk (continued)***(b) Foreign currency risk (continued)***At 31 December 2012****Assets**

Cash and balances with the UAE Central Bank  
 Due from banks  
 Investments in Islamic financing instruments  
 Investments in Islamic sukuk  
 Other assets

	AED'000	US\$ AED'000	EUR AED'000	Others AED'000	Total AED'000
	1,306,208	67,540	-	-	1,373,748
	1,559,675	720,568	288,488	447,983	3,016,714
	10,367,569	436,786	72,559	-	10,876,914
	572,641	1,143,641	-	-	1,716,282
	129,540	13,151	1,554	142	144,387
	<u>13,935,633</u>	<u>2,381,686</u>	<u>362,601</u>	<u>448,125</u>	<u>17,128,045</u>
	14,084,261	348,480	378,394	11,977	14,823,112
	105,459	517,057	2,873	46	625,435
	276,573	15,891	17,495	6	309,965
	<u>14,466,293</u>	<u>881,428</u>	<u>398,762</u>	<u>12,029</u>	<u>15,758,512</u>
	<u>(530,660)</u>	<u>1,500,258</u>	<u>(36,161)</u>	<u>436,096</u>	<u>1,369,533</u>

**Net on-balance sheet foreign currency exposure****Liabilities**

Depositors' account  
 Due to banks  
 Other liabilities

## **26 Risk management (continued)**

### **26.3 Market risk (continued)**

#### *(c) Price risk*

The Bank is exposed to price risk arising from publicly traded investments in Islamic sukuk classified as Available-for-sale and Held-for-trading in the financial statements.

A 5% increase/decrease in the prices will have an impact of AED 10.7million on the Bank's equity and income statement as at and for the year ended 31 December 2013 (2012: AED 9.2 million) relating to held-for-trading portfolio and an impact of AED 63.5 million on the Bank's equity as at 31 December 2013 (2012: AED 43 million) relating to Available-for-sale portfolio. The analysis is based on the assumptions that all other variables will remain constant.

### **26.4 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 Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in an active market for identical financial instruments.
- Level 2 – Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

## 26 Risk management (continued)

### 26.4 Fair value hierarchy (continued)

The financial instruments measured at fair value as per the hierarchy are disclosed in the table below:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
<b>As at 31 December 2013</b>			
<b>Financial assets at fair value</b>			
Investments in Islamic sukuk			
- Classified as AFS	1,270,574	-	-
- Classified as Held for Trading	213,611	-	-
	<u>1,484,185</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities</b>			
Promise to buy or sell currency	-	641	-
	<u>-</u>	<u>641</u>	<u>-</u>
<b>As at 31 December 2012</b>			
<b>Financial assets at fair value</b>			
Investments in Islamic sukuk			
- Classified as AFS	859,632	-	-
- Classified as Held for Trading	183,355	-	-
	<u>1,042,987</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities</b>			
Promise to buy or sell currency	-	1,236	-
	<u>-</u>	<u>1,236</u>	<u>-</u>

At 31 December 2013, the carrying value of the Bank's financial assets and liabilities measured at amortised cost, approximate their fair values.

## **26 Risk management (continued)**

### **26.5 Operational risk**

Operational risk is the risk of direct or indirect loss arising from inadequate or failed processes, technology and infrastructure within the Bank, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory compliance requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation, assets and personnel with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development of employees for operational risk awareness;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with Bank's operational risk standards is supported by a programme of periodic reviews undertaken by Internal Audit and a dedicated Operational Risk Team. The results of their reviews are discussed with the management of the business unit to which they relate and senior management of the Bank.

## 26 Risk management (continued)

### 26.6 Capital management and capital adequacy as per Basel II requirement

The Bank manages its capital considering both regulatory and economic capital. The Bank calculates its risk asset ratio in accordance with requirements and guidelines established by the UAE Central Bank prescribing the ratio of total capital to total risk-weighted assets which is currently set at a minimum of 12% (2012: 12%). This is in line with the assessment and reporting of capital adequacy ratio in accordance with the Basel II Accord as follows:

	2013 AED'000	2012 AED'000
<b>Tier I Capital</b>		
Share capital	3,307,895	3,157,895
Legal reserves	63,566	56,008
Accumulated losses	(934,270)	(1,257,710)
	<u>2,437,191</u>	<u>1,956,193</u>
<b>Tier II Capital</b>		
Subordinated term investment (refer note (i) below)	462,553	616,737
Collective impairment provision	206,428	162,314
Asset revaluation reserve	(1,525)	1,669
	<u>667,456</u>	<u>780,720</u>
<b>Deductions from Tier I &amp; Tier II Capital</b>		
Investment in other equity investments (Note 9)	(25,000)	(26,530)
<b>Total regulatory capital</b>	<u><u>3,079,647</u></u>	<u><u>2,710,383</u></u>
<b>Risk weighted assets</b>		
Credit risk	16,514,205	12,985,097
Market risk	85,143	59,618
Operational risk	932,890	828,131
<b>Risk weighted assets</b>	<u><u>17,532,238</u></u>	<u><u>13,872,846</u></u>
<b>Capital adequacy ratio on regulatory capital</b>	17.57%	19.54%
<b>Risk asset ratio on Tier I capital</b>	13.90%	14.10%

- (i) Subordinated term investment represents deposit received from the UAE Federal Government, Ministry of Finance and classified as Depositors' account in the statement of financial position (Note 11). Deposit has been reduced by 40% in computing Tier II capital in current year in accordance with the requirements and guidelines established by the UAE Central Bank.

**26 Risk management (continued)**

**26.6 Capital management and capital adequacy as per Basel II requirement (continued)**

Asset classes in 2013	On balance sheet gross outstanding AED'000	Off balance sheet net exposure after credit conversion factors (CCF) AED'000	Credit risk mitigation (CRM)		Risk weighted assets AED'000
			Exposure before CRM AED'000	CRM AED'000	
Claims on sovereigns	3,976,912	-	3,976,912	-	229,794
Claims on non-central government public sector entities	5,583,976	-	5,583,976	(733,756)	4,727,047
Claims on banks	3,020,459	125,845	3,146,304	(18,502)	1,824,660
Claims on securities firms	-	-	-	-	-
Claims on corporates	5,749,317	1,553,206	7,146,171	(1,504,395)	5,705,342
Claims included in the regulatory retail portfolio	1,345,833	-	1,345,833	-	1,010,417
Claims secured by residential property	1,590,413	7,003	1,597,416	-	823,588
Claims secured by commercial real estate	494,001	-	494,001	-	494,001
Past due financing	1,527,705	-	348,383	-	432,233
Other assets	1,562,920	-	1,562,920	-	1,267,123
	<u>24,851,536</u>	<u>1,686,054</u>	<u>25,201,916</u>	<u>(2,256,653)</u>	<u>16,514,205</u>

The Bank has rearranged its asset classes during 2013 in accordance with the UAE Central Bank circular no: 3823/2012. Therefore, at 31 December 2013, certain figures have been regrouped or reclassified to conform to the new circular requirements.

**26 Risk management (continued)**

**26.6 Capital management and capital adequacy as per Basel II requirement (continued)**

Asset classes in 2012

	On balance sheet gross outstanding AED'000	Off balance sheet net exposure after credit conversion factors (CCF) AED'000	Credit risk mitigation (CRM)			Risk weighted assets AED'000
			Exposure before CRM AED'000	CRM AED'000	After CRM AED'000	
Claims on sovereigns	1,557,212	-	1,557,212	-	1,557,212	-
Claims on non-central government public sector entities	957,218	-	957,218	-	957,218	9,173
Claims on banks	3,477,735	17,872	3,495,607	-	3,495,607	1,190,457
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	7,467,235	1,218,076	8,420,169	(533,230)	7,886,939	8,169,778
Claims included in the regulatory retail portfolio	1,269,516	-	1,269,516	(54,339)	1,215,177	911,887
Claims secured by residential property	1,308,347	13,807	1,322,155	-	1,322,155	655,817
Claims secured by commercial real estate	626,013	-	626,013	-	626,013	626,013
Past due financing	1,681,713	-	229,441	-	229,441	235,689
Other assets	1,470,159	-	1,470,159	-	1,470,159	1,186,283
	<u>19,815,148</u>	<u>1,249,755</u>	<u>19,347,490</u>	<u>(587,569)</u>	<u>18,759,921</u>	<u>12,985,097</u>

**26 Risk management (continued)**

**26.6 Capital management and capital adequacy as per Basel II requirement (continued)**

Gross exposures and credit risk mitigation:

	2013		2012	
	Exposure AED'000	Risk weighted assets AED'000	Exposure AED'000	Risk weighted assets AED'000
Gross exposure prior to credit risk mitigation	25,201,916	16,514,205	19,347,490	12,985,097
Less: eligible financial collateral	(2,256,653)	(2,256,653)	(587,569)	(587,569)
Net exposure after CRM	<u>22,945,263</u>	<u>14,257,552</u>	<u>18,759,921</u>	<u>12,397,528</u>

Capital requirement for market risk under standardised approach as at 31 December 2013:

	2013		2012	
	Risk weighted assets AED'000	Capital charge AED'000	Risk weighted assets AED'000	Capital charge AED'000
Profit rate risk	83,676	10,041	57,553	6,909
Foreign exchange risk	1,467	176	2,065	248
	<u>85,143</u>	<u>10,217</u>	<u>59,618</u>	<u>7,157</u>

Capital charge for year ended 31 December 2013 has been calculated at 12% (2012: 12%).

**THE TRUSTEE**

**Noor Sukuk Company Ltd.**  
c/o MaplesFS Limited  
Queensgate House  
P.O. Box 1093 Grand Cayman  
KY1-1102 Cayman Islands

**THE BANK AND OBLIGOR**

**Noor Bank PJSC**  
Building 1, Level 8  
Emaar Square  
P.O. Box 8822  
Dubai, United Arab Emirates

**THE DELEGATE**

**BNY Mellon Corporate Trustee Services Limited**  
One Canada Square  
London E14 5AL  
United Kingdom

**REGISTRAR AND TRANSFER AGENT**

**The Bank of New York Mellon (Luxembourg) S.A.**  
Vertigo Building-Polaris  
2-4 rue Eugène Ruppert  
L-2453 Luxembourg

**PRINCIPAL PAYING AGENT**

**The Bank of New York Mellon, London Branch**  
One Canada Square  
London, E14 5AL  
United Kingdom

**LEGAL ADVISERS**

*To the Trustee as to Cayman Islands Law*

**Walkers (Dubai) LLP**  
5th Floor, The Exchange Building  
Dubai International Financial Centre  
P.O. Box 506513  
Dubai, United Arab Emirates

*To the Bank as to the Federal Laws of the UAE, the Laws of the Emirate of Dubai  
and English Law*

**Allen & Overy LLP**  
Level 2, The Gate Village Building GV08  
Dubai International Financial Centre  
P.O. Box 506678  
Dubai, United Arab Emirates

*To the Arrangers and Dealers as to the Federal  
Laws of the UAE, the Laws of the Emirate  
of Dubai and English Law*

**Latham & Watkins LLP**  
Dubai International Financial Centre  
Precinct Building 1, Level 3  
P.O. Box 506698  
Dubai, United Arab Emirates

*To the Delegate as to English law*

**Latham & Watkins LLP**  
Dubai International Financial Centre  
Precinct Building 1, Level 3  
P.O. Box 506698  
Dubai, United Arab Emirates

**AUDITORS**

*To the Bank*

**PricewaterhouseCoopers**  
Emaar Square, Building 4  
Level 8  
PO Box 11987  
Dubai, United Arab Emirates

**GLOBAL CO-ORDINATOR**

**Standard Chartered Bank**  
P.O. Box 999  
Dubai, United Arab Emirates

**ARRANGERS**

**Citigroup Global Markets Limited**  
Citigroup Centre  
Canada Square, Canary Wharf  
London E14 5LB  
United Kingdom

**Noor Bank PJSC**  
Building 1, Level 8  
Emaar Square  
P.O. Box 8822  
Dubai, United Arab Emirates

**Standard Chartered Bank**  
P.O. Box 999  
Dubai, United Arab Emirates

**DEALERS**

**Citigroup Global Markets Limited**  
Citigroup Centre  
Canada Square, Canary Wharf  
London E14 5LB  
United Kingdom

**Dubai Islamic Bank PJSC**  
New Head Office Building  
P.O. Box 1080  
Dubai, United Arab Emirates

**Emirates NBD Capital Limited**  
Gate Building East Wing, Level 4  
Dubai International Financial Centre  
P.O. Box 506710  
Dubai, United Arab Emirates

**Noor Bank PJSC**  
Building 1, Level 8  
P.O. Box 8822  
Dubai, United Arab Emirates

**Sharjah Islamic Bank PJSC**  
P.O. Box 4  
Sharjah, United Arab Emirates

**Standard Chartered Bank**  
P.O. Box 999  
Dubai, United Arab Emirates

