سوق دبي المالي
DUBAI FINANCIAL MARKET

# Annual Report 2010

2011 الذكرى السنوية
Anniversary
21st century trading
mastered in 10 short years

١٠ سنوات من النجاح تجسد
مستقبل أسواق المال

سوق دبي المالي

DUBAI FINANCIAL MARKET

# Annual Report 2010

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"Our journey to development was and will always be a race towards excellence, a race to establish Dubai's position as a leading and developed business center and to confirm its worthiness to be called the financial and commercial capital of the Middle-East region beyond dispute".

HH. Sheikh Mohammed bin Rashid Al Maktoum
UAE Vice President, Prime Minister and Ruler of Dubai


DUBAI FINANCIAL MARKET
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# Board of Directors

Abdul Jalil Yousef Darwish
Chairman

Rashid Hamad Al Shamsi
Vice Chairman

Essa Abdul Fattah Kazim
Managing Director & CEO

Ali Rashid Al Mazroei
Board Member

Mohammed Humaid Al Miri
Board Member

Mussabeh Mohammed Al Gaizi
Board Member

Adil Abdullah Al Fahim
Board Member

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# Chairman's Statement

## 2010 was par excellence the "year of enabling" for DFM's strategy.

Dear Shareholders,

My colleagues, members of the Board of Directors, the Senior Management Team, and I are pleased to present to you DFM's fourth annual report covering the most significant developments witnessed by your company throughout 2010, as well as the company's financial statements for the year ending on December 31st, 2010.

My colleagues, members of the Board of Directors, and I are proud to announce that the first year of this Board's term has resulted in achievements and developments which we hope will leave an immensely positive impact on the company going forward. It is no secret that we have faced many challenges in the past year with the continued repercussions of the global financial crisis. However, these challenges have only strengthened our resolution and determination to learn valuable lessons and have inspired us to move forward with confidence. We can confidently say that we were able, with God's Help, to transform this year into an opportunity to explore the global crisis in search of potential factors that will enable us to look to a bright and successful future, so that the Emirate of Dubai remains a center of excellence, development and growth as well as a venue of achievement and innovation.

Throughout 2010, Dubai, as well as your company, has followed the path laid out by **His Highness Sheikh Mohammed bin Rashid Al Maktoum, UAE Vice-President, Prime Minister and Ruler of Dubai**. The aim was to transform Dubai into an international financial center. The Emirate made sure it met the requirements for achieving this ambition without deviating from its goals and without having to pause for long to handle temporary and incidental circumstances. In 2010, the Emirate of Dubai was able to overcome various repercussions of the global financial crisis. More importantly, it handled many issues in a manner that surprised various observers and proved once again the leadership's ability to develop solutions as well as to smoothly and confidently overcome the toughest situations. Perhaps handling Dubai World's case in record time, much to the surprise of many prominent international financial institutions, reflects an unbeatable experience and know-how as well as a deep-rooted conviction that from crisis comes opportunity.

In this context, 2010 was par excellence the "year of enabling" for DFM's strategy. In harmony with Dubai's ultimate objective to become a dynamic hub for financial markets in this region of the world, your company proceeded with the implementation of its strategic plans. The aim was to achieve the highest possible level of integration between DFM and NASDAQ Dubai in order to consolidate the strengths and competitive characteristics of both, enhancing their liquidity as well as increasing their attractiveness to investors of different categories and nationalities.

DFM's efforts to achieve the Emirate's vision to become a modern international financial center is not a sudden twist, but indeed, a part of a constant strategy that dates back to the establishment of DFM more than ten years ago. This strategy has been gradually implemented through many innovative and creative initiatives, making DFM the market of choice for investors locally, regionally and internationally. These efforts were crowned by qualitative measures that were approved and mainly implemented during the last couple of years in general and 2010 in particular. Consequently, a sophisticated trading platform was established to serve both DFM and NASDAQ Dubai simultaneously, and an organizational structure was adopted to provide the adequate ground for several shared services across the two stock exchanges.

In our quest to achieve this objective, we are mainly guided by the wise vision of **HH Sheikh Mohammed bin Rashid Al Maktoum, UAE Vice-President, Prime Minister and Ruler of Dubai**. This vision is embodied in His Highness' words: "***Our journey to development was and will always be a race towards excellence, a race to establish Dubai's position as a leading and developed business center and to confirm its worthiness to be called the "financial and commercial capital of the Middle-East region beyond dispute***". We are well aware that the repercussions of the global financial crisis have created a new reality packed with challenges. Nevertheless, we are confident that the efficient measures taken by Dubai's leadership in several aspects give us reason to be optimistic about a bright future for the Emirate of Dubai and DFM, which constitutes an essential pillar for achieving the strategic objectives of the Emirate as an international center for financial markets, and the positive impact thereof on the UAE in general.

Thank you

**Abdul Jalil Yousef Darwish**
Chairman
Dubai Financial Market (PJSC)

# Statement of the Managing Director and CEO

**There is no doubt that 2010 is par excellence the year of completing DFM's readiness to make a promising fresh start.**

Dear Mr. Abdul Jalil Yousef Darwish, Chairman,
Dear Colleagues, Members of the Board of Directors,
Dear Shareholders,

My colleagues, members of DFM's Senior Executive Management Team and I are pleased to present to you the company's 2010 annual report. In this context, I would like to set out the company's most significant achievements and developments throughout 2010. These achievements contributed mainly to serving DFM's strategy, preparing the action plans necessary for realizing the company's objectives and effectively proceeding with the implementation of many of these plans.

In 2010, DFM continued implementing its initiatives with the aim of keeping up with global developments despite the great challenges that these created. The most important step in this regard was the acceleration of the procedures for completing the operational systems relevant to the acquisition of NASDAQ Dubai. Indeed, we did complete these systems and consequently all trading activities of NASDAQ Dubai as well as the financial services related thereto, were outsourced to DFM trading platform in July 2010. This significant step not only aligns with the increasing global trend to merge stock markets into giant international entities, but more importantly, unequivocally supports the Dubai government strategic objective to transform the Emirate into an international center for capital markets.

Although this outsourcing is only a few months old, 2010 provided strong evidence of the appropriateness of DFM's policies in this regard, as well as the importance of the historic step it has taken acquiring NASDAQ Dubai. This step proved to be successful in giving investors and participants in DFM the chance to benefit from the many advantages provided by "Two Exchanges, One Market". By making the securities listed on NASDAQ Dubai available to more than 550,000 investors registered with DFM, this step has started to bear fruit and NASDAQ Dubai trading has increased by more than 20% within just a few months.

There is no doubt that 2010 is par excellence the year of completing DFM's readiness to make a promising fresh start. What has been achieved with respect to DFM's internal restructuring provides the proper foundation that favors a more dynamic, more attractive and deeper financial market. In addition to completing the integration of the systems serving both DFM and NASDAQ Dubai, the company has laid the foundation necessary for diversifying its sources of revenue and reaching a more balanced split between the trading revenues and other sources of income, especially as trading revenues still dominate the company's sources of revenue, reaching 85% of the total revenues on average. The company is working on promoting other sources of revenue so as to reduce this average to the prevailing levels worldwide. In this regard, we are focusing on several areas, the most important being market data selling, which we have effectively launched at the beginning of 2011, the introduction of new financial services led by iVESTOR Card as well as the expansion of the services we offer for managing IPO registry services and dividend distributions. In order to be able to achieve the objectives of the abovementioned initiatives, the company adopted a new organizational structure before the end of 2010 that keeps up with the latest developments and provides high levels of efficiency and flexibility, particularly with respect to the services shared by DFM and NASDAQ Dubai.

Last year, the company's management held intensified discussions with different business sectors with a view to encouraging primary issues and attracting new listings. Our top priorities include the diversification of listed companies and an increased representation of different economic sectors in the Emirate of Dubai as well as attracting listings from sectors that are completely absent from the market despite their vital role in the Emirate's economy, such as trade, tourism and health.

The company also pursued throughout 2010 its efforts to improve the UAE's capital market in general so that it keeps up with international best practices. In this regard, our actions were widely welcomed by local and international financial institutions alike, and this contributed to the promotion of the UAE to the "secondary emerging market" category within FTSE indices. In the same context, more initiatives are expected to be introduced in the near future, among which is the adoption of the "Delivery versus Payment" mechanism. This is one of the requirements for promoting UAE exchanges to higher categories within wider international indices, particularly the MSCI index. As a result, UAE markets will become more attractive for international investments.

Concerning your company's financial performance in 2010, the 60% decline in trading has naturally left its mark on the company's revenues and profits. The company achieved net profits amounting to AED 78.9 million compared to AED 346.6 million in 2009. Its revenues amounted to AED 260.5 million compared to AED 502.9 million in the previous year.

We are confident that the significant initiatives taken during last year will gradually contribute to achieving the objective to diversify the company's sources of revenue and profit, in order to achieve a more balanced structure. We hope that this balance will be realized in the medium and long term.

Finally, I would like to take this opportunity on behalf of my colleagues and you, to thank **HH Sheikh Mohammed bin Rashid Al Maktoum, UAE Vice President, Prime Minister and Ruler of Dubai**, for the great support he has given to DFM. I would also like to express my deepest gratitude to the Sharia'a Board, all market participants, and the DFM employees for their efforts and hard work towards achieving the company's objectives. Last but not least, my warmest thanks go to each and every shareholder whose constant support for the company's various development plans constitutes the main pillar for achieving even greater success in the near future.

Thank you

**Essa Abdul Fattah Kazim**
Managing Director and CEO
Dubai Financial Market (PJSC)

# Financial Performance Summary

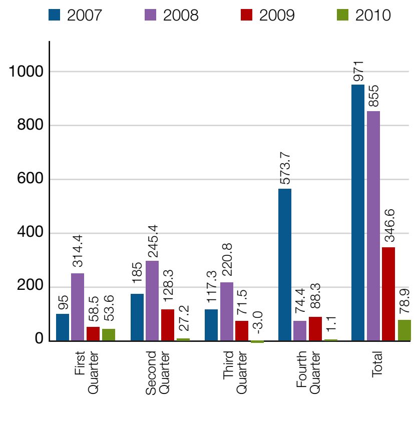
**Due to the continued repercussions of the world financial crisis on financial markets in general and their increased intensity in 2010, DFM trading value plummeted by 60% compared to 2009. Since trading commissions constitute the main source of market revenues, the sharp shrinkage in trading value has adversely affected the company's financial performance as shown:**

## Key Financial Indicators

| | 2007 | 2008 | 2009 | 2010 | Change (%) |
|---|---|---|---|---|---|
| Total revenues (AED million) | 1,136 | 1,013 | 502.9 | 260.5 | -48.2% |
| Total expenses (AED million) | 165 | 158 | 156.3 | 181.6 | +16.2% |
| Net profits (AED million) | 971* | 855** | 346.6 | 78.9 | -77.2% |
| Net profits before depreciation, amortization and interest (AED million) | 1,525 | 944 | 433.7 | 171 | -60.6% |
| Total assets (AED million) | 10,223 | 8,636 | 8,221 | 7,915 | -3.7% |
| Total liabilities (AED million) | 620 | 385.4 | 197.3 | 360.4 | +82.7% |
| Shareholders' equity (AED million) | 9,603 | 8,251 | 8,023 | 7,523 | -6.2% |
| Share price (AED) | 6.2 | 1.25 | 1.88 | 1.51 | -19.7% |
| Earning per share (AED) | 0.18 | 0.08 | 0.04 | 0.01 | -75.0% |
| P/E Ratio (times) | 34.4 | 15.6 | 47 | 151 | +221.3% |
| Return on average equity (percentage) | 15% | 6.8% | 4.3% | 0.93% | -78.3% |
| Return on average assets (percentage) | 14% | 6.4% | 4.1% | 0.90% | -78.0% |
| Dividend payout ratio | 55% | 105% | 115% | 0 | |

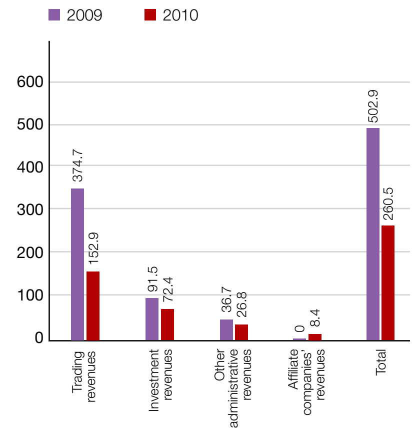
* Excluding IPO revenues.
** The impairment loss of AED 250 million was reclassified to the related profits in 2008 as a result of implementing the International Financial Reporting Standard No. 9 (IFRS9).

## Net Profits (AED million)



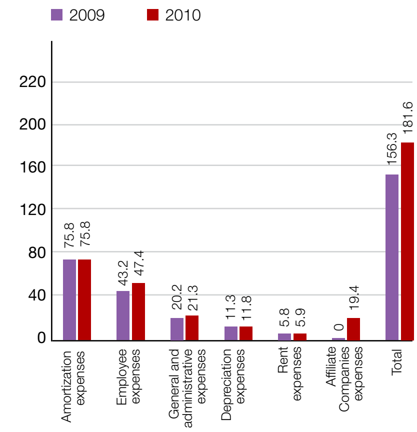

- DFM annual net profits for the fiscal year ending 31/12/2010 amounted to AED 78.9 million compared to AED 346.6 million in 2009, a 77% decline.
- Such decline is mainly due to the noticeable shrinkage in trading value, which characterized financial markets worldwide, as well as to the losses amounting to AED 11 million incurred by affiliate companies (NASDAQ Dubai) from the date of the actual acquisition until the end of the year.

## Revenues (AED million)




- The company's total revenues reached AED 260.5 million in 2010, a decline of 48% from 2009. As previously mentioned, this decline is mainly due to the decrease in trading revenues. Investment revenue decreased as a result of the lower return rates and the shrinkage of total investments due to the payment of cash dividends for the previous year. This significantly contributed to the decline in revenues in general.
- Trading revenues constituted 59% of the company's total revenues in 2010 while investment revenues accounted for 28%. The other administrative revenues resulting from CSD, broker services and report fees represented 10% of the total revenues while affiliate companies' revenues contributed only 3%.

## Expenses (AED million)




- DFM's actual current expenses reached AED 105.8 million in 2010, including affiliate companies' expenses that amounted to AED 19.4 million, compared to AED 80.5 million registered in 2009, a 31% increase. It is noteworthy that this sharp increase in total expenses is due to affiliate companies' expenses that were included in the company's expenses for 2010 but not for 2009.
- The amortization expenses of intangible assets amounted to AED 75.8 million or 42% of total expenses while employees-related expenses contributed 26%, general and administrative expenses 12%, depreciation expenses of fixed assets 6%, rent expenses 3% and affiliate companies' expenses 11%.

# Macroeconomic Developments and Market Environment

In 2010, world economic developments showed contradictory signs with respect to restoring confidence amongst investors and consumers in general and within the financial markets in particular. On the one hand, the global economy recorded positive growth of more than 5%, exceeding the expectations of several international and regional institutions during the first half of the year. On the other hand, this relatively high growth has not helped to dissipate the ambiguity and weak confidence engulfing international markets since the global financial crisis broke out late in 2008. Besides the inconsistency in growth rates between developed countries, developing countries and emerging economies, the achieved growth had no noticeable impact on levels of consumption expenditures or employment rates. Consequently, the sustainability of such growth rates remains uncertain.

In the developed economies, the 3.5% achieved growth was less than expected and mainly reflected the volume of international trade, particularly in manufactured goods. Although this growth was driven by the increase in inventories and fixed capital investments, it did not reflect positively on employment rates and hence on personal income. As a result, consumer confidence and consumption expenditure remained relatively low, raising doubts about the sustainability of such growth.

The situation was better in developing countries and emerging economies, where economic growth reached around 8% and investments contributed to the creation of new employment opportunities. However, this did not reflect positively on the prevailing uncertainties in the financial and banking sectors of such countries due to banks' hesitancy to grant credit facilities and their tendency to focus on strengthening their financial positions, as well as improving the quality of assets. Hence, the majority of investors remained short of necessary funding.

In the UAE, the flexible policies adopted by the government since the beginning of the crisis - represented by measures to enhance confidence and support the banking sector in addition to the commitment to proceed with planned capital expenditures, especially on infrastructure projects - have contributed to minimizing negative impacts on the national economy. As a result, the actual performance of the national economy in 2009 and 2010 exceeded all expected rates published until mid-2010. The latest available indicators show that the UAE economy grew by 1.3% in 2009 compared to an expected decline of 0.7%. While growth was expected not to exceed 0.6% in 2010, it has been recently estimated at 3.2%, apparently supported by the 29% average increase in oil prices. This shows that growth has gained momentum over the last two years.

The improved economic performance not only reflected the fact that actual growth rates exceeded expectations, but it was also accompanied by a positive change in the national economy's structure. In addition to the increasing relative importance of non-oil sectors in the gross domestic product over the previous years, a structural change among the non-oil sectors has been seen in 2009 and 2010. Due to the low returns in the real-estate sector since the financial crisis, and the completion of many infrastructure projects as well as other investment projects, investments shifted from real-estate to services, mainly trade, tourism and logistics. This has increased the contribution of such sectors to the gross domestic product.

Of course, the economic performance of the Emirate of Dubai was no exception to the country's overall performance. Although oil constitutes only a small percentage of the Emirate's gross domestic product, available data show that economic growth in Dubai in the first three quarters of 2010 amounted to 2.5% compared to the same period in 2009, whereas the IMF and World Bank expected the growth for the entire year to range between 0.5% and 1%. The trade sector, both in wholesale and retail, was the leading sector in terms of growth as a result of the 15% increase in the Emirate's total exports (exports plus re-exports). The transportation, storage and tele-communication sectors also registered high growth rates in 2010 with an average of 10%.

Despite these positive macroeconomic developments, stock markets in the UAE continued to suffer from low liquidity, which negatively affected the performance of DFM with respect to both the trading activities and stock prices, as a result of two main factors. First, the continued low confidence in financial markets globally, led to a symmetrical movement in most of markets' indices throughout 2010, though the intensity of fluctuation varied between one stock market and another. The second factor which has affected the performance of DFM was that the majority of listed companies represent only the banking, financial services, construction, and real estate sectors. This concentration led the DFM general index to decline more than other markets, as these sectors were the most affected by the global crisis, which made their recovery slower and eventually affected the performance of listed companies from such sectors.

## Outlook

While DFM looks forward with calculated optimism taking into consideration the challenges faced by financial markets in general, it is certain that restoring confidence in the market is only a matter of time and that the path is now clear for activity to return to its normal levels. On the macro economic level, all indicators and analysis' published by international think tanks confirm that the UAE economy is qualified to pursue its growth, and that its 2011 growth will be among the highest regional and international rates. The main factors underpinning this optimistic outlook are:

1. The economic performance during the past couple of years confirms that the UAE's economy has the fundamentals to enable it to overcome crises with high flexibility and efficiency.
2. The leadership's commitment to proceed with comprehensive development in the UAE is one of the main pillars in driving growth. The best examples of the leadership's commitment in this regard are the initiative taken by HH Sheikh Khalifa bin Zayed Al Nahyan, the UAE President, to allocate AED 5.7 billion to infrastructure projects in the Northern Emirates and the assertion made by HH Sheikh Mohammed bin Rashid Al Maktoum, UAE Vice President, Prime Minister and Ruler of Dubai, that the commitment to carry out all the planned development and infrastructure projects in Dubai is unquestionable.
3. The accumulation of financial surpluses in the region thanks to the rise of oil prices to over US$ 100 will undoubtedly facilitate the financing of development projects, especially those carried out by the federal government.
4. The political stability and social security in UAE play a vital role in attracting investments along with the well developed infrastructure which creates a favorable environment for business; they place UAE at the forefront in attracting foreign investments.

With respect to the banking sector, available data indicate that banks made great strides throughout 2010 in correcting the imbalances that accompanied the pre-crisis boom. This is clearly supported by the following indicators:

1. Banks' total assets excluding provisions increased in 2010 by 5.7% compared to 4.3% in 2009, and capital adequacy ratios increased from 19.2% at the end of 2009 to 20.8% at the end of 2010.
2. The growth in banks' deposits continued to outpace that of credit facilities, which was positively reflected on the banks' balance sheets. Indeed, banks' deposits grew by 6.8%, i.e. five times the growth rate of credit facilities. This has favorably reflected on the credit/ deposit ratio, which decreased from 103.6% at the end of 2009 to 98.2% at the end of 2010. This is the first time in years that this ratio has fallen below 100%.
3. National banks continued to expand their networks in the UAE, by opening 58 new branches in addition to the 63 branches opened in 2009. This indicates their confidence and preparation for a new era of growth and expansion.

As for DFM, the acquisition of NASDAQ Dubai and the subsequent restructuring steps that consolidated the back office operations and other shared services allowing both exchanges to function through a unified platform, have begun to bear fruit in the form of a tangible increase in the trading activity of NASDAQ Dubai. There is no doubt that the impact of these steps on the trading activity will gain momentum in the future. The restructuring process also included the creation of necessary executive units to carry out the new adopted strategy to diversify revenue streams by offering new financial and information services. Furthermore, the continued efforts made in coordination with the Securities and Commodities Authority aiming at improving capital market regulations will lead to introducing new financial instruments to be traded on DFM, such as investment funds and rights issues. All these factors, along with the low share prices that have reached very attractive levels, support an optimistic outlook for a recovery of the stock markets once domestic liquidity restores its normal growth rates and banks give up their exaggerated hesitation to extend credit, which will help private companies restructure their debt and resume investing.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2010 – Two Exchanges, One Market

# DFM Achievements in 2010

## DFM's 10th Anniversary

DFM celebrated its tenth anniversary in 2010 in the presence of His Highness Sheikh Ahmed Bin Saeed Al Maktoum, President of Dubai Civil Aviation Authority and Chief Executive of Emirates Airlines, Ahmad Humaid Al Tayer, Governor of Dubai International Financial Centre, and Abdullah Al Turaifi, Chief Executive of the Securities and Commodities Authority, along with a group of senior officials, chairmen and chief executives of listed companies, brokerage firms, banks and financial advisory firms.

During the celebration, DFM honored several of its members and participants in recognition of their fruitful efforts and cooperation, which contributed to DFM's success during the last ten years. HH Sheikh Ahmed Bin Saeed Al Maktoum presented trophies to representatives of eight listed public joint-stock companies that have been the most active over the past decade, representatives of the five most active brokerage firms as well as representatives of six consulting and financial services firms operating in the field of IPOs for their valuable cooperation with DFM. Chief Executive of the Securities and Commodities Authority Abdullah Al Turaifi was also honored in recognition of the Authority's valuable cooperation with DFM. Finally, HH Sheikh Ahmed Bin Saeed Al Maktoum honored the members of the committee formed in 2006 to transform DFM into a public joint-stock company, the first exchange in the region to go public, in recognition of their efforts as the Founding Committee of DFM Company.

DFM's role in developing the UAE capital market since its establishment at the end of March 2000 was reaffirmed during the celebration. Among the most important aspects of this role:

- DFM's creation represented an important qualitative step in making the capital market environment well regulated and disciplined. Trading activities have been transformed from traditional unsystematic transactions on to an integrated electronic trading platform.
- DFM contributed to consolidating the capital market in the UAE through initiatives aiming at strengthening the IPO sector and encouraging family run businesses to go public.
- Ever since its establishment, DFM has been working on promoting corporate governance principles by strengthening the role of disclosure and transparency.
- DFM was transformed into a public joint-stock company in 2006, by offering 20% of its capital amounting to AED 8 billion through an IPO. The company was listed on its own market on March 7, 2007.
- DFM is the first Islamic Sharia'a compliant exchange worldwide.
- DFM leads regional financial markets in adopting the best trading platforms and techniques worldwide. In 2009, DFM launched its sophisticated trading platform X-Stream.
- DFM is at the forefront of the regional financial markets in providing a fair and transparent trading environment and adopted the well developed surveillance system "SMARTS" in 2010.

## Market Development

DFM has pursued various initiatives to develop the financial market. As well as strengthening the market by promoting IPOs and introducing new financial instruments, it has increased the satisfaction of market participants by expanding the scope of available services and facilitating their delivery. The following are the most significant initiatives taken by DFM in this respect during 2010:

1. Launching iVESTOR Card in cooperation with Network International and VISA, as service suppliers, as well as Emirates NBD, the issuer of the card. iVESTOR enables companies to deposit dividends in shareholders' card accounts directly, rapidly and easily. Investors can use this card to withdraw cash from the Emirates NBD ATM network or from any VISA or PLUS marked ATMs. The card can also be used for travel bookings, as well as shopping through millions of retail outlets that accept VISA cards worldwide. DFM is the first exchange worldwide offering such a card to its investors. Besides its use as a payment card, iVESTOR will include several other value-added services, such as registering and voting during general assembly meetings, as well as participating in IPOs on DFM.
2. Acquiring two-thirds of NASDAQ Dubai from Borse Dubai and NASDAQ OMX Group in May 2010. This step is in line with the increasing world trend towards integrating exchange operators into large worldwide entities. Moreover, it complements the Dubai government's strategic objective to transform the Emirate into a capital markets hub.

# DFM Achievements in 2010

3. Outsourcing NASDAQ Dubai's trading, clearing, settlement and custody services to DFM in July 2010. Trading in securities listed on DFM and NASDAQ Dubai is now available through the DFM trading platform using the same Investor Number issued by DFM and during DFM trading hours.
4. Signing an agreement with Standard Chartered Bank as the first international bank to offer settlement services to the market. In this capacity, Standard Chartered will be in charge of managing cash accounts used by DFM members to settle their transaction-related obligations. This agreement is in line with DFM's commitment to provide its members and customers with a wider network of service providers from local and international settlement banks. Standard Chartered Bank has been one of DFM's custodian banks since 2008.
5. Completing a comprehensive study of potential sectors for IPOs, in collaboration with independent consultants. Based on this study, an extensive marketing plan will be implemented in 2011. This aims to strengthen DFM's relations with companies that will potentially go public by keeping them up-to-date with the latest developments in the UAE market environment and guiding them in their listing preparations.
6. Promoting DFM as a promising regional market by participating in several conferences and workshops on capital markets, particularly on going public, as well as conferences organized by investment banks for international investors. With the same goal, DFM Management strengthened its relations with various foreign institutions by receiving delegations of investors and fund managers from several countries. In light of the worldwide interest in East Asia as the fastest growing region over the last few years, DFM welcomed a particularly high-profile delegation from China's biggest securities firms with which it discussed opportunities for cooperating and exchanging expertise along with other issues related to the financial markets in Asia and the Middle East .
7. Completing all the technical requirements needed for implementing the Delivery versus Payment (DvP) mechanism, including the necessary arrangements with brokers and custody banks. As a result, DFM is now at the forefront of regional financial markets in implementing such a mechanism. This step is expected to be implemented in the second quarter of 2011. Such progress represents the first stage of the DFM's ongoing efforts to adopt international best practices, keep up with the future requirements of the Securities and Commodities Authority and closely cooperate with the Authority to develop the financial markets in the UAE. The DvP is a highly efficient and low risk mechanism, and is one of the main requirements for promoting the UAE markets from the frontier to emerging markets category within Morgan Stanley's MSCI Index. All arrangements and tests needed to facilitate the implementation of this system, including the electronic clearing system, have been accomplished. DFM held a series of meetings with brokerage firms, custody banks and other concerned parties to coordinate and ensure readiness to implement this system.

## Market Control

Within the framework of innovation and development efforts towards achieving market efficiency and fairness through transparency and resources utilization, DFM implemented in 2010 the upgraded version of the SMARTS surveillance system. This system provides efficient applications to safeguard the rights of market participants by monitoring trading activities and identifying manipulation or suspicious transactions during the trading session. DFM also signed a Memorandum of Understanding and Cooperation for market surveillance with the Securities and Commodities Authority with a view to promoting and organizing the surveillance process between the two parties. Under this memorandum, illegitimate practices will be revealed and appropriate measures taken. Throughout the year, the Securities and Commodities Authority issued 26 reports on trading issues and prices manipulation.

## Financial Management

DFM committed to disclose its interim and audited financial statements in line with the rules and regulations in effect, as well as the international accounting and financial reporting standards. During 2010, it enhanced its financial reporting systems by applying the sectoral budget methodology when preparing the 2011 budget. This efficiently contributed to controlling the performance of different sectors, thus enabling expenditure cutbacks and focusing on increasing sources of revenue. Moreover, DFM developed the fixed assets system "barcode" that strengthens the monitoring of fixed assets, their maintenance and their durability.

## Clearing, Settlement & Depository (CSD)

The number of CSD transactions executed on DFM reached 8,410 in 2010, resulting in AED 9.9 million in terms of collected fees compared to AED 9.8 million in 2009. The following table shows the number of transactions executed in DFM by type and by fees.

| Type of transaction | Number of transactions | Fees |
|---|---:|---:|
| Family transfers | 3,071 | 406,520 |
| Inheritance transfers | 1,213 | 564,378 |
| Other transfers | 666 | 1,693,712 |
| Pledged securities | 133 | 1,889,930 |
| Fines on brokers' | 13 | 140,000 |
| Post trading corrections | 14 | 25,937 |
| Securities balance statement | 2,333 | 36,415 |
| Other transactions | 967 | 5,164,106 |
| **Total** | **8,410** | **9,920,998** |

## Meeting International Quality Standards

DFM renewed its ISO 9001:2008 certification after being subjected to a comprehensive audit by Lloyd's Register Quality Assurance. The company successfully maintained its compliance with the various requirements to renew this certification for the third time. This reflects DFM's commitment to international quality standards as well as its continuous efforts to improve its performance and to offer services in line with the best international quality standards.

DFM was amongst the first to obtain the ISO 9001:2000 quality certifications in 2001. The company regularly receives Lloyd's representatives who periodically ensure the validity of the company's quality system. ISO 9001:2008 certification is an international standard that provides a model for establishing, implementing, operating, monitoring, reviewing, maintaining and developing a quality management system within institutions. The company management organized a number of TQM workshops that offered training to 107 employees, including 90 staff and 17 senior managers. These workshops covered quality education and its relation to the company's strategy and performance outcomes.

DFM's quality policy focuses on elements including customer satisfaction (investors, listed companies and brokerage firms), anticipating customer expectations, employee satisfaction, training and development, keeping work procedures in line with the advanced technical systems, and continuous innovation.

## Human Capital

Three new employees were recruited by DFM in 2010, while eight other employees resigned from the company. This reduced the total number of DFM staff by the end of the year to 133, of whom 94, i.e. 71%, are UAE citizens. In its continuous quest to improve its employees' competence and knowledge, DFM intensified during 2010 its training services, providing the staff a total of 2,920 hours of training through 38 programs and courses, compared to 1,300 hours of training in 2009. These courses were attended by 113 employees in 2010 compared to 54 employees in 2009.

In addition to professional staff training, DFM continued its summer training program, launched in 2004. This program supports DFM's aim to activate the role of youth in practical life, and confirms its role in the community and its national mission to create a successful and capable generation by preparing and empowering citizens.The 2010 summer program involved 17 students from various universities and schools in the UAE. Their training covered various DFM departments in addition to a number of brokerage firms operating on DFM. They received training on technical and administrative work and were given the chance to apply theoretical knowledge to practical fields. Twelve other university students underwent practical training during the year as part of graduation requirements of local universities.

In cooperation with the NASDAQ Dubai Academy, DFM organized in 2010 several training courses and seminars for representatives of brokerage firms, covering various capital markets topics. These covered market methodology in light of the implementation of the integrated work systems and performing all trading activities of DFM and NASDAQ Dubai through a single platform, thus enabling them to provide their customers the best services possible in terms of fairness and accuracy. They included fighting money-laundering, the principles of compliance, risk management, derivatives and financial analysis.

# DFM Achievements in 2010

Within the framework of its efforts to educate DFM staff about the nature of capital markets and their role in improving resource allocation, as well as keep them up to date with the latest developments, DFM created an integrated, diversified and rich library in 2010. This contains a wide range of books and working papers discussing various aspects of financial markets such as legislation and regulations, financial and investment terminology as well as corporate governance. The library also includes publications from Arab stock exchanges and financial institutions.

## Stock Game

DFM ran its 8th Annual Stock Game in 2010, receiving a phenomenal response from educational institutions and students. Over 4,000 students representing 20 institutions participated, compared to 2,103 participants in 2009. More than 14,000 students representing 40 educational establishments have participated since the game was launched eight years ago.

The Stock Game enables students to virtually trade in securities listed on DFM as per the live prices during the official trading hours, through DFM's website. The 8th Stock Game included a new addition: the launching of the Stock Game website in Arabic. The game reflects DFM's awareness of the increasing need to publicize investment culture amongst the younger generations as well as to develop students' skills and capacities, as one of the main pillars of developing human resources in the UAE.

## The Shari'a Board

In 2010, the Shari'a Board continued examining all issues related to launching the Standard for Owning and Trading of Sukuk. The board has prepared six consecutive drafts of the said standard, thus getting closer to the final draft in preparation for issuing the standard before the end of 2011. The board also continued monitoring and assessing DFM activities' compliance with the Shari'a rules, issuing fatwas on received enquiries as well as providing DFM with lists of Shari'a compliant companies based on the latest financial statements available at the end of every quarter. Upon the request of the board, DFM established, through the Internal Control Department, a Shari'a control unit to assist the Shari'a Board in carrying out its duties.

## Internal Control

The DFM Internal Control Department, which reports directly to the Board of Directors through the Board's Audit Committee, has pursued its activities to ensure the compliance of various departments with rules and regulations as well as other legislation governing the company. This includes compliance with corporate governance guidelines, ensuring that objectives set by DFM Senior Management are competently and efficiently achieved within the authorized capacity and verifying the accuracy and soundness of all data and reports presented to the Senior Management and the Board of Directors as well as their compliance to international standards.

Based on the plan authenticated by the Audit Committee, several audit activities were performed throughout 2010 encompassing the Financial Affairs, Human Resources, Market Control and Surveillance, and Brokers' Affairs Departments. Based on these audits, the department prepared audit reports, which raised a number of observations and recommendations aimed at strengthening internal control standards. All the reports were discussed with the Audit Committee after considering the feedback from the relevant departments. The Internal Control Department also undertook, upon the Senior Management's request, other tasks that are consistent with its autonomy. To ensure its continued commitment to meet international standards, the company renewed in 2010 its ISO 9001:2008 certificate. Furthermore, the Internal Control Department analyzed the gaps and risks as well as the work plans and policies with departments in charge of information security according to the quality standard ISO27001.

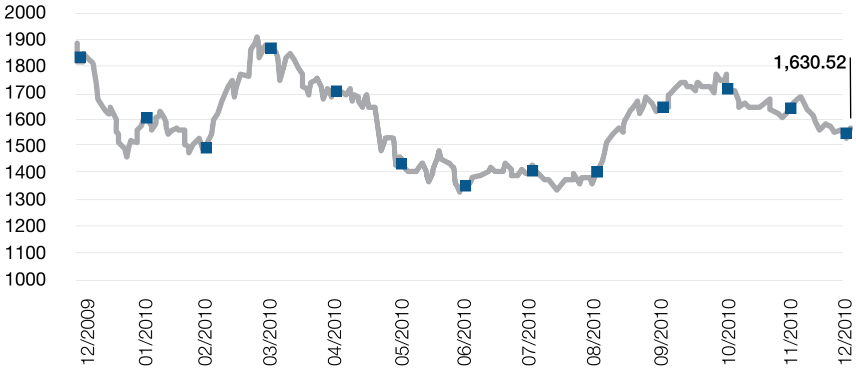

DUBAI FINANCIAL MARKET

# DFM Performance in 2010

## General Index and Market Size

At the end of 2010, the DFM General Index registered a 9.6% decrease reaching 1,630.5 points in comparison with 1,803.6 points at the end of the previous year. The index's performance varied considerably throughout the year. While it registered a 2.2% increase in the first quarter and a 15.2% increase in the third quarter, it declined by 20.7% in the second quarter; a sharp decline that negatively reflected on the index performance for the entire year. The highest monthly increase in the index during 2010 was achieved in September with a 13.5% increase, leading all regional Arab and major international stock markets.

Monthly performance of DFM General Index during 2010




In 2010, DFM amended its index rules in order to ensure a more balanced representation of active shares and a more realistic reflection of market activity. The adoption of such rules was the outcome of the biannual review performed by the Index Committee in January and July of each year to maintain the highest level of accuracy and the best international standards. The adopted amendments include:

- The ratio of free float shares of least traded companies to be included on the index has been limited to 20% only. This amendment aims at minimizing the impact of such shares' price volatility on the index.
- The maximum weight of any single company in the index was reduced from 25% to 20%. This amendment aims at reducing the impact of companies with high market capitalization on the index and balancing their weight relative to other companies.
- Based on these two amendments, the number of companies included in the index in 2011 reached 30, of which 15 are categorized as the most traded, with a total weight of 81% in the index sample.

On the other hand, and considering the continued repercussions of the financial and economic crisis as well as the accompanying decrease in trading values of shares in general and non-active shares in particular, DFM unified the margin of daily price fluctuation for all shares at 15% up and 10% down. This step aims at providing equal opportunities to all shares with respect to price fluctuation in order to encourage trading of shares, especially those known to be non-active, which includes some of the most important UAE companies.

Furthermore, 2010 saw the amendment of the tick size to allow the entry of market orders up to the third decimal place for shares with a market price below AED 1, thus enabling investors to price such shares in fractions of a Fils. Such amendment, adopted in consultation with the Securities and Commodities Authority as well as the brokerage firms operating on DFM, provides more options for the offer mechanism and so enables investors to set sale and purchase prices more flexibly.

At the sectoral level, the indices of three out of the nine sectors represented on DFM increased, the highest being the Consumer Goods sector increasing by 20.8%, followed by the Transportation and Tele-communications sectors that increased by 8.0% and 2.5% respectively. The remaining sectoral indices decreased varyingly, with the Investment and Financial Services sector declining the most (by 23.3%), followed by the Insurance and the Real Estate sectors which dropped by 14.5% and 14.3% respectively.

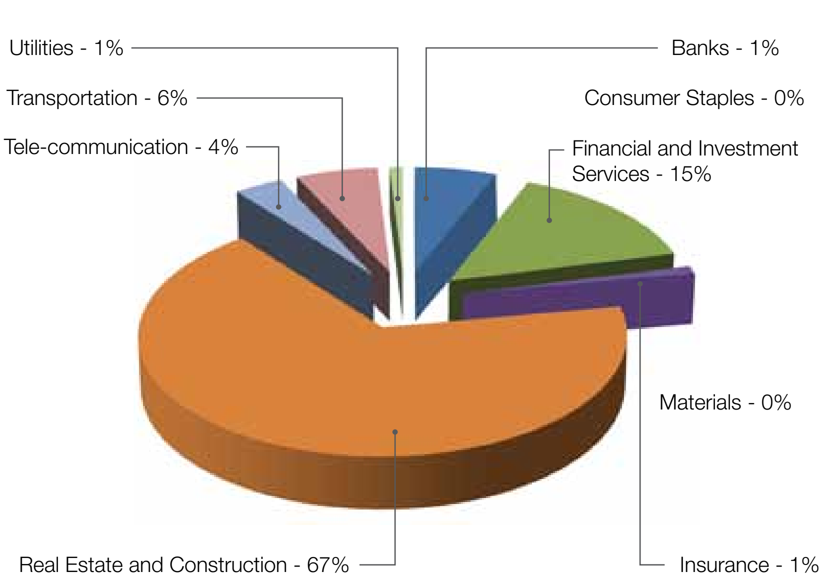
The market's size measured by the market capitalization of listed companies decreased by 6.6%, reaching AED 199.1 billion at the end of 2010 compared to AED 213.2 billion at the end of the previous year. The Banking sector occupied the first place, accounting for 38.4% of total market capitalization of local listed companies. The Real Estate and Construction sector came second, with 29.2% of the total market capitalization, followed by the Investment and Financial Services sector and Tele-communications sector with 13.9% and 10.2% respectively.

## Trading Activities

The value of traded shares in 2010 amounted to AED 69.7 billion compared to AED 173.5 billion in 2009, declining by 59.8%. The average daily traded value decreased to AED 277.5 million in 2010 compared to AED 694 million in 2009. Trading on DFM was more active in early 2010, amounting to AED 29 billion in the first quarter, 41.6% of the total yearly value. The lowest trading value throughout the year was registered during the third quarter, at AED 9 billion, or 13% of the total yearly traded value.

By sector, Real Estate and Construction accounted for the majority of the traded value on DFM, amounting to AED 46.9 billion, or 67.3% of the total traded value. Investment and Financial Services came second with AED 10.5 billion, 15.1% of the total traded value, followed by the Transportation sector with AED 4.19 billion, 6.0% of the total traded value.

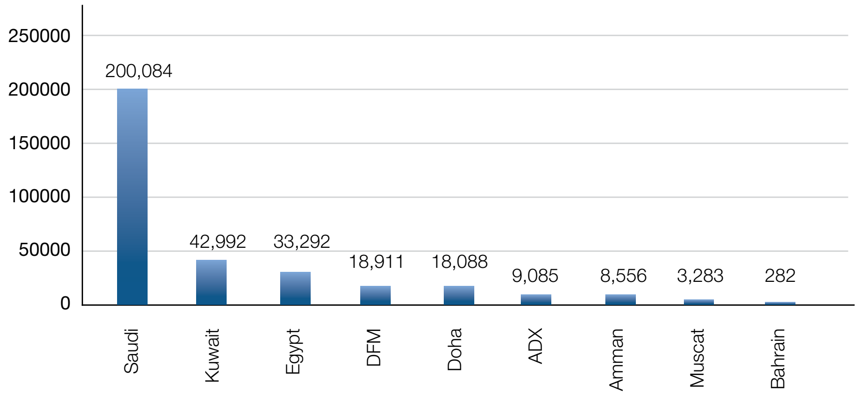
### Trading Value by Sector



# DFM Performance in 2010

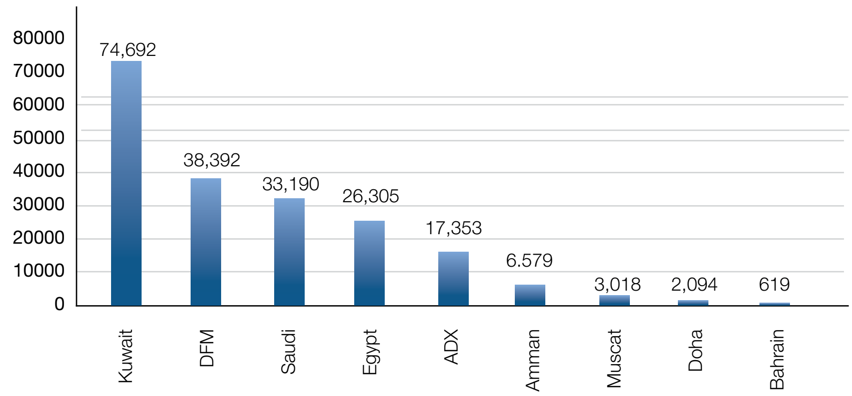
At the regional level, DFM came fourth amongst the Arab stock markets in traded value in 2010, accounting for 5.7% of total traded value on the GCC, Egyptian and Jordanian stock markets. Traded value in all these markets declined in 2010. Total traded value on these markets collectively amounted to US$ 335 billion compared to US$ 670 billion in 2009, a decline of 50%.

Traded Value (US$ million)




The number of traded shares on DFM decreased by 65.3% to 38.4 billion shares in 2010 compared to 110.7 billion shares in the previous year. Despite this sharp decline, DFM came second amongst the main Arab stock markets in terms of the number of its traded shares accounting for 19% of the total number of shares traded on the main Arab stock markets.

No. of Traded Shares (millions)




The number of transactions traded on DFM decreased by 60%, to 794,700 transactions compared to 1.98 million transactions in 2009. The daily average of transactions dropped from 7,937 to 3,166 in 2010.

## Foreign and Institutional Investment

In 2010, shares traded by foreign investors on DFM constituted 44.1% of the total traded value. The value of shares purchased by foreigners in 2010 amounted to AED 30.8 billion, while the value of shares sold by foreigners was AED 30.6 billion. Consequently, AED 180.3 million of net foreign investment in total flowed into DFM during 2010.

**Trading activities in 2010 by nationality**

| | Total purchases (AED) | Total sales (AED) | Net investment (AED) |
|---|---|---|---|
| Arab | 15,926,414,059 | 16,111,055,306 | -184,641,246 |
| GCC | 4,352,442,609 | 4,307,349,999 | 45,092,610 |
| Others | 10,538,875,614 | 10,219,013,369 | 319,862,245 |
| **Total Non UAE** | **30,817,732,282** | **30,637,418,673** | **180,313,609** |
| UAE | 38,847,036,104 | 39,027,349,713 | -180,313,609 |
| **Grand Total** | **69,664,768,386** | **69,664,768,386** | **0** |

Shares purchased by institutional investors in 2010 amounted to AED 16.0 billion, 23% of the total trading value, while shares sold by institutional investors amounted to AED 15.2 billion, 21.8% of the total trading value. Consequently, AED 864.7 million of net institutional investment in total flowed to DFM during 2010.

**Trading activities in 2010 by type of investor**

| | Total Purchases (AED) | Total sales (AED) | Net investment (AED) |
|---|---|---|---|
| Institutions | 16,035,018,315 | 15,170,342,964 | 864,675,351 |
| Individuals | 53,629,750,071 | 54,494,425,422 | -864,675,351 |
| **Grand Total** | **69,664,768,386** | **69,664,768,386** | **0** |

# Corporate Governance Report for 2010

## 1. Corporate Governance Practices:

Dubai Financial Market believes in the importance of continued efficient application of corporate governance guidelines and institutional discipline standards in order to protect the interests of the company, its investors and related parties. The company complied with Ministerial Resolution No. 518 in regard to the separation of roles of the Chairman and CEO when electing the new Board of Directors on 21/4/2010 during the General Assembly Meeting. Moreover, committees appointed by the Board of Directors were reshaped and assigned the duties stipulated in the Ministerial Resolution.

**The company confirms its continued compliance with the Ministerial Resolution No. 518 and its provisions.**

## 2. Trading in the Company's Shares by the Board of Directors:

The company complies with the rules stipulated in Articles 14 and 15 of the regulations pertaining to CSD and securities custody, and applies the following endorsed policy regarding insider trading:

- The company identifies the list of insiders including members of the Board of Directors and Executive Management as well as employees who have access to undisclosed information by the nature of their job. This list is updated periodically whenever any change/modification occurs thereto.
- The company provides DFM Disclosure Department with the above list as well as any modification thereto.
- Brokerage firms should obtain a prior approval from DFM's Market Control Department to place any trading order for Board members. Moreover, members of the Board of Directors should disclose to the Board's Secretary at the end of every fiscal year all the trading activities they have performed, in compliance with the self-assessment principle.
- Trading operations executed by insiders are reviewed quarterly to ensure that they comply with the rules and regulations in force.
- The employee should disclose his Investor Number to the Human Resources Department, which communicates this number to the concerned departments to update the CSD records in this regard.
- The employee wishing to trade in the company's shares should fill out and submit the required form to the Market Control Department for approval after verifying that the request faces no legal impediments and particularly does not violate the trading ban periods.
- By law, the company trading ban period on the company's shares is set as follows:
    - » Ten (10) working days prior to disclosing any important information that can affect the share price unless such information results from urgent and unexpected events.
    - » Fifteen (15) working days prior to the end of the quarterly, semi-annual or annual financial period and until the disclosure of financial statements.

**All Board members have acknowledged that they have not traded in the company's shares in 2010.**

## 3. Formation of the Board of Directors

By virtue of the company's Articles of Association, the Board of Directors of the Company consists of 7 members elected during the ordinary General Assembly Meeting by secret ballot for a period of 3 years. Accordingly, the new Board of Directors was elected on 21/4/2010, for a term ending on 21/4/2013. All the seven board members are UAE nationals with outstanding experience and capabilities. The following shows the Board of Directors formation, members' designations, biographies, experience and qualifications:

| Name | Title | Executive/ Non-Executive | Independent/ Non-Independent |
|---|---|---|---|
| Abdul Jalil Yousef Darwish | Chairman | Non-Executive | Independent |
| Rashid Hamad Al Shamsi | Vice Chairman | Non-Executive | Independent |
| Essa Abdul Fattah Kazim | Managing Director and CEO | Executive | Non-Independent |
| Mohammed Humaid Al Miri | Member | Non-Executive | Independent |
| Ali Rashid Al Mazroei | Member | Non-Executive | Independent |
| Mussabeh Mohammed Al Gaizi | Member | Non-Executive | Independent |
| Adil Abdullah Al Fahim | Member | Non-Executive | Independent |

# Corporate Governance Report for 2010

## Board of Directors' Biographies

### Abdul Jalil Yousef Darwish

Banking expert and businessman, currently occupies the following positions:

- Chairman of the UAE Enterprises Group
- Member of the Board of Directors and Treasurer of Dubai Chamber of Commerce and Industry.
- Member of the Board of Trustees, American University of Sharjah.
- Member of the Dubai Economic Council.
- Member of the Board of Directors of the National Bank of Umm Al Quwain since its inception in 1982.
- Deputy Chairman of the Emirates Institute for Banking and Financial Studies.
- Deputy Chairman of the Human Resources Development Committee in the Banking and Financial Sector.
- Member of the Board of Trustees, Dubai University.
- Member of the Board of Directors, Al Mal Capital P.S.C.
- Member of the Board of Directors, The General Pension and Social Security Authority (GPSSA)

Previous positions held by Mr. Abdul Jalil Yousef Darwish:

- CEO of HSBC Bank Middle East Ltd., UAE.
- Member of the Executive Board of Directors and Deputy Chairman of HSBC Bank Middle East Ltd.
- Chairman of HSBC Middle East Finance Company Ltd.
- Member of the Board of Directors of HSBC Financial Services (Middle East) Ltd.

### Rashid Hamad Al Shamsi

Mr. Rashid Hamad Al Shamsi was Vice Chairman of Dubai Financial Market since its transformation into a public joint-stock company and until the end of the Board's term on 21/4/2010. Mr. Al Shamsi is founding partner of MEECON, an architectural and engineering project management consultancy, and owner of Al Shamsi Property Management company in Dubai. He graduated from the University of South Carolina, USA, with a Bachelor's degree in Civil Engineering in 1982 and occupies/occupied the following positions:

- Member of the Board of Directors of the Emirates General Transport Corporation.
- Member of the Board of Directors of Gulf Navigation (PJSC).
- Member of the Board of Directors of NASDAQ Dubai.
- Mr. Al Shamsi was actively engaged in the marketing and distribution of energy-related products for over 22 years.
- General Manager of Emirates General Petroleum Corporation (Emarat) from 2002 to 2008, chairing several Emarat joint ventures and subsidiary companies.
- Former member of the Board of Directors of Dubai Chamber of Commerce and Industry from 1991 to 1997.

## Essa Abdul Fattah Kazim

Mr. Essa Abdul Fattah Kazim was the Executive Chairman of Dubai Financial Market since it was transformed into a public joint-stock company in 2007 until the election of the new board in 2010. He was the General Manager of Dubai Financial Market since its inception in 2000. Moreover, Mr. Kazim currently holds the following positions:

- Chairman of Borse Dubai Ltd.
- Member of the Board of Directors of Dubai International Financial Centre.
- Member of Dubai Economic Council.
- Member of the Board of Directors of NASDAQ Dubai.
- Member of the Board of Directors of NASDAQ OMX New York.
- Member of the Board of Directors of Noor Islamic Bank.
- Member of the Board of Directors of Rochester Institute of Technology.
- Member of the Board of Trustees of Hamdan Bin Mohammed E-University.

Mr. Kazim has led the DFM's development in the past few years through innovative initiatives, including transforming the exchange into a public joint-stock company which operates in compliance with Islamic Shari'a. DFM was the first regional exchange to go public in 2006, and to list its shares on Dubai Financial Market in 2007. Mr. Kazim has efficiently led the transformation of DFM from a government entity into a public joint-stock company. Mr. Kazim graduated with a Master's degree in Economics from the University of Iowa, USA, in 1987. He also holds a Master's degree in TQM from Wollongong University, UAE, since 1998, and a Bachelor's degree in Mathematics, Economics and Computer Science from Coe College, USA, since 1985.

## Ali Rashid Al Mazroei

Mr. Ali Al Mazroei has more than 10 years of hands-on financial and administrative experience in the banking and commercial sector. He graduated from Southern New Hampshire University, USA, with a Master's degree in 2002, and from the American University in Dubai with a BA in 1999. Mr. Mazroei holds/has held the following positions:

- CEO of Al Bahri and Al Mazroei Trading company established in 1968 in Dubai. The Group manages general investments in the sectors of Commerce, Real Estate, Industry, Tourism and Travel etc.
- From 2000 to 2007, Mr. Al Mazroei held various functional and administrative positions at the CitiBank Group in Dubai, including Director of the SME Department, as well as the Head of Planning and Analysis Department for Turkey, Middle East and Africa region.

Chairman's Statement
Statement of the Managing Director and CEO
Financial Performance Summary
Macroeconomic Developments and Market Environment
DFM Achievements in 2010
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# Corporate Governance Report for 2010

### Mohammed Humaid Al Miri

Mr. Al Miri is a Financial and Administrative Director with more than 20 years of experience in both public and private sectors. He graduated from Mohammed Bin Rashid's Program for Leadership Development, Government Leaders Category. He also holds an MBA from the American University in Dubai since 2004 and a Bachelor's degree in Accounting from the United Arab Emirates University in Al Ain since 1990. Mr. Al Miri started his professional career as an employee at the Land Department in 1986 and holds/has held the following positions since then:

- Assistant CFO and CAO of Mohammed Bin Rashid Housing Establishment as of August 2009.
- Partner in Faris & Co. for Auditing Accounts and Administrative Consultancy as of 1995.
- Member of the Al Wasl Sports Club Board of Directors as of July 2009.
- CFO at the Roads and Transport Authority from June 2006 to August 2009.
- Assistant General Manager of the Dubai Transport Authority from March 2005 to June 2006.
- Member of Board of Directors of the Dubai Development Board from December 2005 to April 2008.
- CFO and CAO of the Land Department from November 2000 to March 2005.

Mr. Al Miri has the following professional memberships:

- Certified Public Accountant since 1990.
- Member of the UAE Accountants and Auditors Association since 1997.
- Member of the Culture and Science Symposium in Dubai since its inception.
- Honored with the Sheikh Rashid Award for Educational Excellence for completing an MBA degree at the American University in Dubai.
- Holds an Institutional Leadership Certificate from the Leadership and Learning Center in Florida, USA.
- NLP practitioner certified by Richard Bandler through McClendon & Associates Institute.
- Holds a Self-Hypnosis Practitioner Diploma from Proudfoot School of Clinical Hypnosis and Psychotherapy.

### Mussabeh Mohammed Al Gaizi

Mr. Mussabeh Al Gaizi has over 18 years of hands-on experience, the majority of which were in the field of information technology where he supervised and directly managed several multi-tasked teams and individuals. He graduated with a Bachelor's degree in Computer Information Systems from Arkansas University, USA, in 1991.

Mr. Al Gaizi holds/has held the following positions:

- Head of e-Banking Services at Dubai Islamic Bank as well as other leadership positions such as a member of the Board of Directors of the Islamic Financial Services (a subsidiary of Dubai Islamic Bank) and Head of the Automatization Committee at the Dubai Islamic Bank, which plays a vital role in coordinating and aligning the bank's comprehensive strategy in line with the latest IT developments.
- Managed the Dubai Ports Authority IT Department as Support Supervisor

and subsequently as Head of the IT Department. Throughout his seven years of working at Dubai Ports World, he gained extensive hands-on experience and knowledge from dealing with the various functional departments thereof.
- Mr. Al Gaizi joined Dubai Islamic Bank in 1997 as Head of the Cards Unit which he developed in two years.
- Head of Information Systems Department at Dubai Islamic Bank between 2001 and 2008. During this period, he was able to build and support the information systems infrastructure and hence gain wide-ranging hands-on experience in project management at various banking levels.
- Since 2008, based within the E-Banking Operations Unit, Mr. Al Gaizi has been developing various channels to connect customers to the bank. In recognition of the great development that he achieved in this field, his project was named Project of the Year for 2009, as well as Best Unique E-Banking System Project at Dubai Islamic Bank.

### Adil Abdullah Al Fahim

Mr. Adil Abdullah Al Fahim has extensive hands-on experience of over ten years within the financial, administrative, audit/control, information systems as well as commercial law fields. He graduated with a Bachelor's degree in Accounting from Ain Shams University in Cairo in 1999. He holds/has held the following positions:

- Director of the Internal Audit at Department of Finance, Dubai.
- Deputy Director of Performance Control, Information Systems Audit and Training Department at H.H Ruler of Dubai's court.
- Assistant CFO at Dubai Airports company where he joined in 2006.
- Member of the Dubai Government Financial Planning Committee.
- General Director of the UAE Accountants and Auditors Association (2000-2002).
- Member of the Board of Directors and President of the Conferences Committee in the UAE Accountants and Auditors Association (2002-2004).
- President of the American Institute of Internal Auditors (IIA) - Emirates branch (2006-2007).
- Senior Vice-President, Internationally Certified Anti-Fraud Association in the USA - Emirates branch.
- Member and Secretary of the UAE Auditors' Registration Committee.
- UAE Representative of the AGCC E-Commerce Committee.

Mr. Al Fahim has the following professional memberships:

- Certified Public Accountant (CPA).
- Certified Fraud Examiner (CFE).
- Certified Financial Consultant - Canada.
- Certified Audit Command Language (ACL) Trainer - Belgium.
- Founding member of the UAE Accountants and Auditors Association.
- Member of the Judges Assistant Category in the Experts list of technical consultants adopted by Dubai courts.
- Information Systems Audit and Control Association (USA).
- Institute of Internal Audit (USA).
- American Society for Quality (USA).
- Association of Financial Professionals in Hospitality and Technology Affairs for the Hotel Sector.
- The Canadian Association of Financial Consultants.

# Corporate Governance Report for 2010

### Remuneration of Members of the Board of Directors

By virtue of the provisions of Articles 33 and 67 of the company's Articles of Association, and in compliance with Article 118 of the Companies Law 8/1984 and its amendments, the Board of Directors' remuneration should not exceed 10% of the net profit after deduction of costs, expenses, statutory legal reserve, as well as distributing dividends not less than 5% of the company's capital. During its meeting on 8th January 2011, the Board of Directors set its members' remuneration to AED 300,000 per member after obtaining shareholders' approval during the General Assembly Meeting.

### Board of Directors' Meetings in 2010

Having full quorum, the Board of Directors held seven meetings in 2010 on the following dates: 2nd March 2010, 20th April 2010, 1st May 2010, 26th May 2010, 24th July 2010, 27th September 2010 and 7th November 2010. The company was committed to disclose the meetings' agenda before the scheduled meeting and to announce the results of the meeting in due time.

### Duties and Powers Assigned by the Board of Directors to the Executive Management

In its meeting held on the 26th May 2010, the Board of Directors endorsed the company's financial and administrative powers which authorize the Executive Management to exercise the following duties assigned to it:

- The power entrusted to the CEO to contract by direct purchase up to AED 1 million, provided that the Board of Directors is informed directly after the execution of each transaction.
- The power entrusted to the CEO to contract by tender of up to AED 1 million.
- The power to liquidate investments up to AED 50 million, provided that the Board of Directors is informed of the executed operation as well as the loss/profit resulting thereof.
- Endorsing guidelines of administrative procedures, decisions and circulars organizing work.
- Enforcing fines/penalties.
- Exempting up to AED 100,000 of the due fees.
- Signing MoUs /limited representation/sub-deposit agreements.
- Endorsing interim financial statements after being reviewed by the Audit Committee.
- Borrowing and obtaining bank facilities of up to AED 10 million.
- Signing cheques and bank transfers of up to AED 100 million by two persons.
- Managing all types of investment accounts with Islamic banks and any other Islamic financial instruments, with maturity less than 1 year and unlimited amounts upon the recommendations of investment committee.
- Managing all types of investment accounts with Islamic banks and any other Islamic financial instruments, with maturity for more than 1 year and amounts up to AED 50 million upon the recommendations of investment committee.

## 4. Fees of External Auditor

The external auditor is appointed upon the recommendation of the Audit Committee, and after examining the tenders presented by the audit firms and ensuring the external auditor's independence. The nomination is approved during the General Assembly Meeting.

Upon the recommendation of the Audit Committee and endorsement from the general assembly held on the 21st April 2010, Deloitte & Touche was appointed to audit the company's accounts for 2010, at a cost of AED 213,000. The Audit Committee ensured the auditor's independence, by excluding Deloitte & Touche from providing any other services to the company.

## 5. Audit Committee

The Audit Committee was reshaped in accordance with the Board of Directors' decision during its meeting held on the 1st May 2010, while the Committee Chairman was elected on the 26th May 2010. The Audit Committee consists of the following members:

- Mohammed Humaid Al Miri - Chairman
- Ali Rashid Al Mazroei
- Adil Abdullah Al Fahim

The Board ensured that all the Committee members are non-executive and independent as well as accounting and financial experts. In compliance with the Ministerial Resolution No. 518, the Audit Committee was assigned the following duties:

1. Setting and implementing the policy related to contracting with an external auditor, and reporting to the Board of Directors about the issues that the Committee believes need to be addressed, as well as the Committee's

recommendations in this regard.

2. Monitoring the external auditor's independence and objectivity, and discussing with it the nature, scope and efficiency of the auditing process as per the approved auditing standards.
3. Monitoring the soundness of the company's financial statements and reports (annual, semi-annual and quarterly) and reviewing them as part of its regular work during the year, with particular focus on the following:

    - Any modifications in the accounting policies and practices.
    - Highlighting the aspects subject to the assessment of the Board of Directors.
    - The significant modifications resulting from the audit.
    - The assumption of going concern.
    - Complying with the accounting standards decided by the Authority.
    - Complying with the listing and disclosure rules as well as other legal requirements related to the preparation of financial reports.

4. Coordinating with the company's Board of Directors, Executive Management and CFO or the delegated Director to address his duties. The Committee should meet with the external auditor once a year at least.
5. Examining any important and irregular clauses that are mentioned or that should be mentioned in such reports and statements, and paying due attention to any issues raised by the company's CFO, the delegated Director, the compliance officer or the external auditor.
6. Reviewing the company's financial control, internal control and risk management systems.
7. Discussing the internal control system with the management and ensuring that the management is diligently working on establishing an efficient internal control system.
8. Examining the findings of the main investigations on internal control matters entrusted to it by the Board of Directors or carried out upon the Committee's initiative and with the Board's approval.
9. Ensuring coordination between the company's auditors and the external auditor as well as availability of the resources needed by the internal audit body, and reviewing and controlling the efficiency of such body.
10. Reviewing the company's financial and accounting policies and procedures.
11. Reviewing the engagement letter of the external auditor, its action plan and any significant inquiries it may submit to the Executive Management concerning accounting books, financial statements or control systems, as well as the management's response in this regard.
12. Ensuring the timely response of the Board of Directors' replies to the significant inquiries included in the external auditor's engagement letter.
13. Setting the guidelines that enable the company's employees to confidentially report any possible violations in financial reports, internal control or other issues, as well as the steps that enable independent and fair investigations of such violations.
14. Monitoring the company's compliance with the standards of professional behavior.
15. Ensuring the application of work rules related to its duties and to the powers entrusted to it by the Board of Directors.
16. Reporting to the Board of Directors on all issues mentioned in this clause.
17. Examining any other issues determined by the Board of Directors.

## Audit Committee's Meetings

The Audit Committee holds its meetings at least once every three months or whenever the need arises. Draft minutes of the meetings are prepared and kept by the Rapporteur, and should be signed by all attending members prior to being endorsed. In the event of a member's abstention from such signing, their objection, as well as the reasons for that objection should be stated in the minutes. Once the minutes are endorsed, the final copy should be sent to all committee members for their record.
In case the Board of Directors does not approve the Audit Committee's recommendations regarding the choice, nomination, resignation or dismissal of the external auditor, the Board should include this rejection in the governance report stating the Audit Committee's recommendations and the Board's reasons for rejecting them.

**The Audit Committee held four meetings in 2010 on the dates: 26th January 2010, 1st March 2010, 7th July 2010 and 4th November 2010; and committed to assume all duties assigned to it.**

## Committee's Powers

The company provides the Audit Committee with sufficient resources to enable it to perform its duties, including enabling it to resort to external experts whenever the need arises.

# Corporate Governance Report for 2010

## 6. Internal Control System

The Board of Directors acknowledges its responsibility for reviewing the internal control system as well as its efficiency through the Audit Committee emanating from the Board.

### Internal Control Definition

As per the Institute of Internal Auditors, the authoritative body for internationally recognized internal audit standards, internal audit is defined as:
*"**An independent, objective assurance and consulting activity designed to add value and improve the organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.**"*

DFM's internal auditing department shall be organized and operated in accordance with the professional auditing standards of the Institute of Internal Auditors.

### Mission of the Internal Audit Function

The mission of the DFM's Internal Audit department is to provide independent and proactive auditing and consulting services to the DFM's Board of Directors, Audit Committee, the CEO and its Management.
It supports the management in achieving the organizational objectives through enhancing risk control and management, rendering value-added consulting services, and the other services listed in the internal audit scope statement.

### Internal Audit Responsibilities:

- Prepare an annual audit plan based on the risk assessment of the functions performed by the different departments of DFM.
- Perform comprehensive audits for operations and functions performed by different DFM departments. This includes but is not limited to financial audits, performance audits, compliance audits, operational audits, IT audits, and Shari'a audits.
- Review systems and operations to assess the extent to which organizational objectives are achieved, and the adequacy of controls over activities leading to such achievement.
- Evaluate the relevance, reliability and integrity of management and financial information.
- Appraise utilization of resources with regard to economy, efficiency and effectiveness.
- Assess the means of safeguarding assets and verify their existence, adequacy and effectiveness.
- Ascertain whether the management has established adequate control criteria to evaluate the accomplishment of objectives and goals.
- Making appropriate recommendations for improving the governance process with regard to its functions:
  - » Promotion of appropriate values.
  - » Ensuring effective performance management and accountability.
  - » Communicating risk and control information.
- Coordinating the activities of the board, external and government auditors.
- Communicating engagement results to the appropriate parties and monitoring the actions taken with regard to these results.
- Preventing and detecting fraud.
- Coordinating activities and sharing information with other internal and external providers of assurance and consulting service.
- Taking an active role in support of the organization's ethical culture.
- Ascertaining the extent of compliance with established policies, procedures and instructions.
- Recommending improvements in procedures and systems to prevent waste, extravagance and fraud.
- Advising on appropriate systems of controls and other accounting and operational matters in its consulting capacity.
- Drawing attention to any failure to take remedial action.
- Carrying out any ad hoc appraisals, inspections, investigations, examinations or reviews requested by the Audit Committee, the Board or by senior management.
- Providing consulting services for senior management regarding the adoption and issuance of the managerial decisions, circulations, controls, procedures, and forms.
- Following up the execution of recommendations and corrective actions required by the audit activity and agreed upon with the management, whether these actions are recommended by the internal audit, government audit, quality audit or external audit reports.
- Carrying out any assignments required by the senior management, audit committee, or Board of Directors.
- Complying with requirements of professional auditing standards through maintaining the professional competencies, objectivity, and independence of the audit team.
- Coordinating with the external auditor and government auditor to ensure a complete coverage of all audit aspects.
- Coordinating with the audit committee to ensure that Board policies and resolutions have been carried out.

### Audit Resources
DFM's Internal Audit department is committed to the highest standards applicable in the audit profession. This is achieved through:

- Selecting and hiring individuals with the best qualifications, experience, and skills.
- Giving great consideration to hiring UAE nationals with the required qualifications, experience and skills.
- Keeping its auditors updated to the best practices, standards, and knowledge through continuous education and training.
- Encouraging audit personnel to obtain internationally recognized professional certificates, e.g. CPA, CIA, CMA.
- Maintaining and monitoring the independence of the auditors, so that they can carry out their work freely and objectively. This permits auditors to render impartial and unbiased judgments.
- Continuous and periodical evaluation of audit personnel and activities, based on fair, clear, and easy to understand criteria designed to enhance self-motivation.
- Maintaining the team values and the timeliness of the audit products to enable the management to take any corrective actions in the proper time.
- Emphasizing the importance of technology as a tool for improving audit activity and dealing with the challenges of current and expected technology used in business.

### Authority of Internal Audit Activity
To ensure the independence and objectivity of internal audit activity, the Internal Audit Director reports directly to the Board of Directors or through the Audit Committee. He should report administratively to the CEO of the DFM.

The internal auditors shall have full, free, and unrestricted access to all departments, activities, functions, records, properties and personnel relevant to the audited activity and/or function.

The internal auditor has no direct responsibility for or authority over, any of the activities/functions subject to the audit. Therefore, the internal audit activity does not discharge the auditees of their responsibility for the work done by them.

To maintain their independence and objectivity, internal auditors may not normally be assigned non-audit work; however in some circumstances which require an internal auditor to be assigned such non-audit work, the issue should be discussed between the Internal Audit Director and the concerned manager to evaluate the necessity of such assignment and its consequences. It should be emphasized that the auditor cannot participate in auditing a job or activity that he had responsibility for executing.

### Scope of Internal Auditing
The Internal Audit Department provides an expanding range of assurance and consulting services including:

- **Financial audit service:** performed in accordance with generally accepted auditing standards to express an opinion regarding whether DFM's financial statements present fairly, in all material respects, the financial position, results of operations, and the cash flows in conformity with generally accepted accounting standards.
- **Compliance audit:** review of the financial and operating controls and transactions for conformity with laws, standards, regulations and procedures.
- **Operational audit:** review of the various functions within DFM to evaluate the efficiency, effectiveness, and economy of these functions.
- **Consulting services:** advisory and related activities that intended to add value and improve DFM's governance, risk management, and control process, which can be done as part of normal or routine activities as well as in response to management requests.
- **Information technology audit:** Internal Audit Department is required to assess information systems security risks, monitor the implementation of corrective actions, and evaluate the security controls.
- **Reporting control issues:** Submitting the final audit reports to the Board of Directors, through the Audit Committee, and to the CEO of the company.

## General Information
- Since its inception, the company has never committed any violation nor has it been sanctioned or given any warning by the Securities and Commodities Authority or by any other supervisory authority.
- The Nomination and Remuneration Committee held two meetings on 6th June 2010 and 20th December 2010, and submitted its recommendations to the Board of Directors.
- The company was honored by the Securities and Commodities Authority on the 28th February 2010 among the companies which adopted corporate governance guidelines.

# Financial Statements

# Independent Auditor's Report

THE SHAREHOLDERS
DUBAI FINANCIAL MARKET (DFM) - PJSC
DUBAI
UNITED ARAB EMIRATES

## Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Dubai Financial Market (DFM) - PJSC (the "Company"), and it's subsidiaries (together the "Group") Dubai, United Arab Emirates, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the consolidated financial statements

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

## Auditor's Responsibility

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

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Dubai Financial Market (DFM) - PJSC, Dubai, United Arab Emirates and it's subsidiaries as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Company has maintained proper books of account. We obtained all the information and explanations which we considered necessary for our audit. According to the information available to us, there were no contraventions during the year of the UAE Federal Commercial Companies Law No. 8 of 1984, as amended, or of the Company's Articles of Association and its subsidiaries which might have materially affected the financial position of the Company or the results of its operations for the year.

Deloitte & Touche (M.E.)

Anis F. Sadek
(Reg. No. 521)

Dubai
March 14, 2011

# Consolidated Statement of Financial Position

AS OF DECEMBER 31, 2010

| | Note | 2010<br>AED'000 | 2009<br>AED'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment deposits | 5 | 416,391 | 38,527 |
| Other financial assets measured at fair value through other comprehensive income (FVTOCI) | 7 | 515,407 | 1,003,793 |
| Property and equipment | 8 | 40,006 | 29,932 |
| Intangible assets | 9 | 2,647,238 | 2,723,092 |
| Goodwill | | 2,878,874 | 2,878,874 |
| **Total non-current assets** | | 6,497,916 | 6,674,218 |
| | | | |
| **Current assets** | | | |
| Cash and bank balances | 10 | 247,980 | 33,462 |
| Other financial assets measured at fair value through profit and loss (FVTPL) | 6 | 9,777 | - |
| Investment deposits | 5 | 1,133,019 | 1,482,292 |
| Prepaid expenses and other receivables | 11 | 23,674 | 26,680 |
| Due from a related party | 19 | 2,618 | 3,914 |
| **Total Current assets** | | 1,417,068 | 1,546,348 |
| **Total Assets** | | 7,914,984 | 8,220,566 |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| Equity | | | |
| Share capital | 12 (a) | 8,000,000 | 8,000,000 |
| Treasury shares | 12 (b) | (4,364) | (55,864) |
| | | 7,995,636 | 7,944,136 |
| Net initial public offering surplus | 13 | 31,608 | 31,608 |
| Investments revaluation reserve - FVTOCI | 14 | (944,741) | (1,163,469) |
| Statutory and other reserves | 14 | 247,016 | 239,120 |
| Retained earnings | | 375,634 | 971,837 |
| Capital reserve | 15 | (181,950) | - |
| **Equity attributable to owners of the company** | | 7,523,203 | 8,023,232 |
| **Non-controlling interest** | | 31,370 | - |
| **Total equity** | | 7,554,573 | 8,023,232 |
| **Non-current liabilities** | | | |
| Provision for employees' end of service indemnity | 17 | 6,065 | 3,279 |
| Subordinated loan | 19 | 58,414 | - |
| **Total non-current liabilities** | | 64,479 | 3,279 |
| **Current liabilities** | | | |
| Payables and accrued expenses | 18 | 41,022 | 22,415 |
| Dividends payable | 16 | 206,410 | 123,140 |
| Due to a related party | 19 | 48,500 | 48,500 |
| Total current liabilities | | 295,932 | 194,055 |
| **Total Liabilities** | | 360,411 | 197,334 |
| Total Equity and Liabilities | | 7,914,984 | 8,220,566 |

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

The financial statements on pages 40 to 73 were approved and signed on behalf of the Board of Directors, on March 14, 2011.

# Consolidated Income Statement

FOR THE YEAR ENDED DECEMBER 31, 2010

| | Note | 2010 | 2009 |
|---|---|---|---|
| | | AED'000 | AED'000 |
| **Revenues** | | | |
| Trading commission fees | | 158,725 | 374,738 |
| Brokerage fees | | 20,838 | 20,785 |
| Ownership transfer and mortgage fees | | 6,867 | 5,672 |
| Other fees | | 3,218 | 4,683 |
| **Operating income** | | 189,648 | 405,878 |
| Net investment revenue | 20 | 73,168 | 91,510 |
| Other income | | 975 | 5,541 |
| Change in fair value of financial assets measured at fair value through profit and loss (FVTPL) | | 984 | - |
| General and administrative expenses | 21 | (113,922) | (80,460) |
| Amortization of intangible assets | 9 | (75,854) | (75,854) |
| Finance cost | | (1,536) | - |
| **Net profit for the year** | | 73,463 | 346,615 |
| **Attributable to :** | | | |
| Owners of the company | | 78,961 | 346,615 |
| Non-controlling interest | | (5,498) | - |
| | | 73,463 | 346,615 |
| Earnings per share - AED | 22 | 0.01 | 0.04 |

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

# Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED DECEMBER 31, 2010

| | Note | 2010<br>AED'000 | 2009<br>AED'000 |
|---|---|---|---|
| **Net profit for the year** | | **73,463** | 346,615 |
| **Other comprehensive (loss)/income** | | | |
| (Loss)/gain on revaluation of investments measured at FVTOCI | | (51,252) | 61,285 |
| **Other comprehensive (loss)/income for the year** | | **(51,252)** | 61,285 |
| **Total comprehensive income for the year** | | **22,211** | 407,900 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | **27,709** | 407,900 |
| Non-controlling interest | | **(5,498)** | - |
| | | **22,211** | 407,900 |

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

# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED DECEMBER 31, 2010

| | Share capital | Treasury shares | Net initial public offering surplus | Investments revaluation reserve AFS | Investments revaluation reserve FVTOCI | Capital reserve | Statutory and other reserves | Retained earnings | Attributable to owners of the company | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| **Balance at 31 December 2008** | **8,000,000** | **(55,864)** | **31,608** | **(974,754)** | **-** | **-** | **613,374** | **636,628** | **8,250,992** | **-** | **8,250,992** |
| Effect of the change in accounting policy for classification and measurement of financial assets - IFRS 9 (Note 26) | - | - | - | 974,754 | (1,224,754) | - | - | 250,000 | - | - | - |
| Balance at 1 January 2009 - restated | 8,000,000 | (55,864) | 31,608 | - | (1,224,754) | - | 613,374 | 886,628 | 8,250,992 | - | 8,250,992 |
| Net profit for the year | - | - | - | - | - | - | - | 346,615 | 346,615 | - | 346,615 |
| Other comprehensive income for the year | | | | | 61,285 | - | - | - | 61,285 | - | 61,285 |
| Total comprehensive income for the year | - | - | - | - | 61,285 | - | - | 346,615 | 407,900 | - | 407,900 |
| Transfer to statutory reserve | - | - | - | - | - | - | 34,662 | (34,662) | - | - | - |
| Dividends declared | - | - | - | - | - | - | - | (635,660) | (635,660) | - | (635,660) |
| Transfer of reserves to retained earnings (Note 14) | - | - | - | - | - | - | (408,916) | 408,916 | - | - | - |
| **Balance at December 31, 2009** | **8,000,000** | **(55,864)** | **31,608** | **-** | **(1,163,469)** | **-** | **239,120** | **971,837** | **8,023,232** | **-** | **8,023,232** |
| Net profit for the year | - | - | - | - | - | - | - | 78,961 | 78,961 | (5,498) | 73,463 |
| Other comprehensive loss for the year | - | - | - | - | (51,252) | - | - | - | (51,252) | - | (51,252) |
| Total comprehensive income for the year | - | - | - | - | (51,252) | - | - | 78,961 | 27,709 | (5,498) | 22,211 |
| Arising on acquisition of a subsidiary (Note 15) | - | - | - | - | - | (181,950) | - | - | (181,950) | 36,868 | (145,082) |
| Transfer to statutory reserve | - | - | - | - | - | - | 7,896 | (7,896) | - | - | - |
| Transfer to retained earnings on sale of FVTOCI investments | - | - | - | - | 269,980 | - | - | (269,980) | - | - | - |
| Dividends declared (Note 16) | - | - | - | - | - | - | - | (397,288) | (397,288) | - | (397,288) |
| Transfer of treasury shares on acquisition of a subsidiary (Note 12b) | - | 51,500 | - | - | - | - | - | - | 51,500 | - | 51,500 |
| **Balance at 31 December 2010** | **8,000,000** | **(4,364)** | **31,608** | **-** | **(944,741)** | **(181,950)** | **247,016** | **375,634** | **7,523,203** | **31,370** | **7,554,573** |

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

# Consolidated Statement of Cash Flows

FOR THE YEAR ENDED DECEMBER 31, 2010

| | 2010<br>AED'000 | 2009<br>AED'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net profit for the year | **73,463** | 346,615 |
| Adjustments for: | | |
| Depreciation of property and equipment | **17,212** | 11,327 |
| Provision for employees' end of service indemnity | **1,475** | 957 |
| Amortization of intangible assets | **75,854** | 75,854 |
| Provision for doubtful accounts expense | **560** | 237 |
| Change in fair value of FVTPL investments | **(984)** | - |
| Gain on sale of available for sale investments | **-** | (688) |
| Finance cost | **1,536** | - |
| Islamic investment deposits profit | **(69,647)** | (85,205) |
| Dividend income | **(3,521)** | (5,600) |
| **Operating profit before changes in operating assets and liabilities** | **95,948** | 343,497 |
| Decrease/(increase) in prepaid expenses and other receivables | **52,371** | (1,736) |
| Decrease in due from a related party | **1,296** | 637 |
| Decrease in payables and accrued expenses | **(42,444)** | (11,190) |
| **Cash generated from operations** | **107,171** | 331,208 |
| Employees' end of service indemnity paid | **(298)** | (256) |
| **Net cash generated from operating activities** | 106,873 | **330,952** |
| **Cash flows from investing activities** | | |
| Proceeds from sale of financial assets measured at FVTOCI | **437,134** | 2,546 |
| Acquisition of a subsidiary, net of cash acquired | **(140, 410)** | - |
| Purchase of property and equipment | **(11,389)** | (12,882) |
| Net investment deposits | **(13,775)** | (652,988) |
| Revenue received from investments deposits | **69,647** | 93,154 |
| Dividend received | **3,521** | 5,600 |
| **Net cash generated from/(used in) investing activities** | 344,728 | **(564,570)** |
| **Cash flows from financing activities** | | |
| Dividends paid to shareholders | **(314,018)** | (532,685) |
| **Net cash used in financing activities** | (314,018) | **(532,685)** |
| **Net increase/(decrease) in cash and cash equivalents** | **137,583** | (766,303) |
| Cash and cash equivalents, beginning of the year | **339,244** | 1,105,547 |
| **Cash and cash equivalents, end of the year (Note 10)** | 476,827 | **339,244** |

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

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2010

## 1. Establishment and operations

Dubai Financial Market (DFM) - PJSC (the “Company” or “DFM”) is a public joint stock company incorporated in the Emirate of Dubai – United Arab Emirates, pursuant to decree No. 62 issued by the Ministry of Economy on February 6, 2007, and is subject to the provisions of the UAE Federal law No. 8 for the year 1984 and its amendments.

The licensed activities of the Company are trading in financial instruments, acting as commercial, industrial and agricultural holding and trust company, financial investment consultancy, and local and foreign shares and bonds brokerage. In accordance with its Articles of Association, the Company complies in all its activities, operations and formalities with the provisions of Islamic Sharia’a and shall invest its entire funds in accordance with these provisions.

The Company’s shares are listed on Dubai Stock Exchange.

The Company currently operates the Dubai Stock Exchange, related clearing house and carries out investment activities on its own behalf.

The registered address of the Company is Dubai World Trade Center, Sheikh Zayed Road, P.O. Box 9700, Dubai.

The ultimate parent and controlling party is the Government of Dubai.

The shares owned by Dubai Government are registered in the name of Borse Dubai Limited, the parent company.

On May 24, 2010, the Company acquired 67% of NASDAQ Dubai share capital for an amount of AED 204 million as cash consideration and 50 million treasury share valued at AED 92 million whereby 33% of the residual share capital of NASDAQ Dubai is owned by the parent company (Note 15).

# Notes to the Consolidated Financial Statements - continued

FOR THE YEAR ENDED DECEMBER 31, 2010

## 2. Adoption of new and revised International Financial Reporting Standards

***Standards and Interpretations adopted with no effect on the financial statements***
Standards and Interpretations affecting the disclosures in the current year (and/or prior years)

The following new and revised Standard has been adopted in the current period and has affected the disclosures in these consolidated financial statements.

| | |
|---|---|
| Improving Disclosures about Financial Instruments (IFRS 7 Financial Instruments: Disclosures) | The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments. |

FOR THE YEAR ENDED DECEMBER 31, 2010

***Standards and Interpretations adopted with no effect on the consolidated financial statements***

The following new and revised Standards and Interpretations have also been adopted in these consolidated financial statements. Their adoption has not had any significant impact on the amounts reported or the disclosure in these consolidated financial statements but may affect the accounting for future transactions or arrangements.

| | |
|---|---|
| Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters | The amendments provide two exemptions when adopting IFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease. |
| Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions | The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award. |
| Amendment to IFRS 3 (revised) Business Combinations and consequential amendments to IAS 27 (revised) Consolidated and Separate Financial Statements, IAS 28 (revised) Investments in Associates and IAS 31 (revised) Interests in Joint Ventures | Comprehensive revision on applying the acquisition method. |
| Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2009) | The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale. |
| Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items | The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options. |
| IFRIC 17 Distributions of Non-cash Assets to Owners | The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. |
| IFRIC 18 Transfers of Assets from Customers | The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from ‘customers’ and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with IAS 18 Revenue. |
| Improvement to IFRS issued in 2009 | The application of Improvements to IFRSs issued in 2009 which amended IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16 has not had any material effect on amounts reported in the consolidated financial statements. |

# Notes to the Consolidated Financial Statements - continued

FOR THE YEAR ENDED DECEMBER 31, 2010

***Standards and Interpretations in issue not yet adopted***

At the date of authorization of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

| | |
|---|---|
| IFRS 1 First-time Adoption of International Financial Reporting Standards - Replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs' | Annual periods beginning on or after 1 July 2011 |
| IFRS 7 Financial Instruments: Disclosures - Amendments resulting from May 2010 Annual Improvements to IFRSs | Annual periods beginning on or after 1 July 2011 |
| IFRS 7 Financial Instruments: Disclosures - Amendments enhancing disclosures about transfers of financial assets | Annual periods beginning on or after 1 January 2011 |
| IAS 1 Presentation of Financial Statements - Amendments resulting from May 2010 Annual Improvements to IFRSs | Annual periods beginning on or after 1 January 2011 |
| IAS 12 Income Taxes - Limited scope amendment (recovery of underlying assets) | Annual periods beginning on or after 1 January 2011 |
| IAS 24 Related Party Disclosures - Revised definition of related parties | Annual periods beginning on or after 1 January 2011 |
| IAS 34 Interim Financial Reporting - Amendments resulting from May 2010 Annual Improvements to IFRSs | Annual periods beginning on or after 1 January 2011 |
| IFRIC 13 Customer Loyalty Programmes - Amendments resulting from May 2010 Annual Improvements to IFRSs | Annual periods beginning on or after 1 January 2011 |
| IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction - November 2009 Amendments with respect to voluntary prepaid contributions | Annual periods beginning on or after 1 January 2011 |

The directors anticipate that the adoption of these Standards and Interpretations will not have a significant impact on the presentation and disclosures of the Company's financial statements.

FOR THE YEAR ENDED DECEMBER 31, 2010

## 3. Significant accounting policies

### *3.1 Statement of compliance*
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

### *3.2 Basis of preparation*
The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set below.

### *3.3 Basis of consolidation*
The consolidated financial statements incorporate the financial statements of the Company and its Subsidiaries (together the "Group"). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Details of the Subsidiaries are as follows:

| Company name | Activity | Country of incorporation | Ownership held |
|---|---|---|---|
| NASDAQ Dubai | Electronic Financial Market | U.A.E. | 67% |

NASDAQ Dubai has the following subsidiary:

| Company name | Activity | Country of incorporation | Ownership held |
|---|---|---|---|
| NASDAQ Dubai Guardian Limited | Bare nominee solely on behalf of NASDAQ Dubai Limited | U.A.E. | 100% |

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

### *3.4 Business combination*
Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

# Notes to the Consolidated Financial Statements - continued

FOR THE YEAR ENDED DECEMBER 31, 2010

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

### *3.5 Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets are amortised so as to write off their cost over their estimated useful lives, using the straight-line method as follows:

| | Years |
|---|---|
| License to operate as a Stock Exchange | 50 |
| Relationship with market participants (Brokers) | 10 |
| Historical trading database | 5 |

### *3.6 Goodwill*

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in consolidated income statement.

Goodwill arising on the acquisition of a company or any entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

FOR THE YEAR ENDED DECEMBER 31, 2010

### *3.7 Revenue recognition*

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement at the fair value of the consideration received or receivable as follows:

Trading commission fees, ownership transfer and mortgage fees are recognized on the date of transaction in the market.

Brokers' license fees are recognised on the date of granting the license and are recognised on a life time proportion basis.

***Dividend***

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

***Return on Islamic investment deposits***

Return on Islamic investment deposits are recognised based on the expected minimum rate of return specified in the investment agreement on time proportion basis, and reconciled to actual on maturity date.

### *3.8 Leasing*

Leases are classified as finance leases, where the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

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

The Group as lessee

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

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

### *3.9 Foreign currency transactions*

For the purpose of these consolidated financial statements UAE Dirhams (AED) is the functional and the presentation currency of the Group.

Transactions in currencies other than AED (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

# Notes to the Consolidated Financial Statements - continued

FOR THE YEAR ENDED DECEMBER 31, 2010

### *3.10 Government grants*

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related building cost.

### *3.11 Property and equipment*

Property and equipment are carried at cost less accumulated depreciation and any identified impairment loss. Except for land which is stated at fair value. The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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 Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated income statement when incurred.

Depreciation is calculated using the straight-line method to allocate the assets' cost to their residual values over their estimated useful lives as follows:

| | Years |
|---|---|
| Leasehold improvements | 4 |
| Computers and information system | 3-5 |
| Furniture and office equipment | 3-10 |
| Motor vehicles | 4 |

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.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

### *3.12 Impairment of tangible and intangible assets excluding goodwill*

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, for which the estimates of future cash flows have not been adjusted.

FOR THE YEAR ENDED DECEMBER 31, 2010

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### *3.13 Employees' benefits*

Provision is also made for the full amount of end of service benefit due to non-UAE national employees in accordance with the UAE Labour Law, for their period of service up to the end of the year. The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service benefit is disclosed as a non-current liability.

U.A.E. National employees in the United Arab Emirates are members of the Government-managed retirement pension and social security benefit scheme. As per Federal Labour Law No. 7 of 1999, the Group is required to contribute 15% of the "contribution calculation salary" of U.A.E. payroll costs to the retirement benefit scheme to fund the benefits. The employees are also required to contribute 5% of the "contribution calculation salary" to the scheme. The only obligation of the Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the consolidated income statement for the year.

### *3.14 Provisions*

Provisions are recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation at the end of the reporting period, using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

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

### *3.15 Financial instruments*

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the instrument.

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

# Notes to the Consolidated Financial Statements - continued

FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

*Classification of financial assets*
Debt instruments that meet the following conditions are subsequently measured at amortised cost less impairment loss (except for debt investments that are designated as at fair value through profit or loss on initial recognition):

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

All other financial assets are subsequently measured at fair value.

*Amortised cost and effective interest method*
The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income and expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income and expenses are recognised on an effective interest basis for debt instruments measured subsequently at amortised cost. Interest income and expense are recognised in profit or loss and is included in the “net investment revenue” line item.

*Financial assets at fair value through other comprehensive income (FVTOCI)*
On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

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

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

The Group has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of IFRS 9 (see Note 26).

Dividends on these investments in equity instruments are recognised in profit or loss when the Group’s right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends earned are recognised in profit or loss and are included in the ‘net investment revenue’ (Note 20).

FOR THE YEAR ENDED DECEMBER 31, 2010

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

Investments in equity instruments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) on initial recognition (see above).
Debt instruments that do not meet the amortised cost criteria (see above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re measurement recognised in profit or loss.  Fair value is determined in the manner described in Note 25.
Interest income on debt instruments as at FVTPL is included in the net gain or loss described above.
Dividend income on investments in equity instruments at FVTPL is recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue and is included in the net gain or loss described above.

***Foreign exchange gains and losses***

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

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

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

***Impairment of financial assets***

Financial assets that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

# Notes to the Consolidated Financial Statements - continued

FOR THE YEAR ENDED DECEMBER 31, 2010

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

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

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

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

***Financial liabilities and equity instruments***

***Classification as debt or equity***
Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

***Financial liabilities***
All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

***Financial liabilities subsequently measured at amortised cost***
Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective interest method. Interest expense that is not capitalised as part of costs of an asset is included in the 'finance costs' line item.

FOR THE YEAR ENDED DECEMBER 31, 2010

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

## 4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3 to the consolidated financial statements, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

***Critical judgments in applying Company's accounting policies***

The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

***Classification of investments***
Upon adoption of IFRS 9 by the NASDAQ Dubai, NASDAQ's management decided to reclassify the subsidiary's investments into financial assets measured at fair value through income statement. The management reclassified its available for sale investments in debt instruments to financial assets measured at fair value through income statement.
***Valuation of unquoted equity investments***
Valuation of unquoted equity investments is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments or other valuation models.

***Impairment of assets values***
At each reporting date, the management reviews the assets' values to determine that their book values have not exceeded amounts recoverable from them. The management estimates the recoverable amount of various assets individually or based on the cash generating unit to which the individual asset belongs.

***Key sources of estimation uncertainty***
The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

***Intangible assets***
Management has estimated the useful lives of the intangible assets based on analysis of relevant factors relating to the expected period over which the intangible assets are expected to generate cash inflows to the group in the foreseeable future.

***Impairment of goodwill***
Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. In management's view, as Dubai Financial Market's only cash generating unit is at the Group level, comparing the fair value minus cost to sell (market capitalisation) of the Company to the carrying value of its net assets in total will provide a good indication of whether any impairment has occurred for impairment testing.

# Notes to the Consolidated Financial Statements - continued

FOR THE YEAR ENDED DECEMBER 31, 2010

***Depreciation of property and equipment***

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

***Allowance for doubtful debts***

At each reporting date, the management conducts a detailed review of receivable balances, an allowance for doubtful debts is established based on this review, management experience and prevailing economic conditions.

## 5. Investment Deposits

| | 2010 | 2009 |
|---|---|---|
| | AED'000 | AED'000 |
| Current: | | |
| Islamic investment deposits maturing in less than 3 months from the date of deposit (Note 10) | 228,847 | 305,782 |
| Islamic investment deposits maturing in more than 3 months from the date of deposit but before 31 December 2011 | 812,422 | 1,176,510 |
| Investment deposits with banks | 91,750 | - |
| | 1,133,019 | 1,482,292 |
| Non-current: | | |
| Islamic investment deposits maturing after 31 December 2011 | 416,391 | 38,527 |
| | 1,549,410 | 1,520,819 |

As per the deposit agreements, returns on these investments range from 3.00% to 6.50% (2009: 3.75% to 7.00% per annum).

The Group's subsidiary NASDAQ has obtained AED 91.75 million (USD 25 million) overdraft line for working capital purposes, which remains unutilized. This facility is fully collateralised by a fixed deposit of AED 91.75 million (USD 25 million).

## 6. Other financial assets at fair value through profit and loss (FVTPL)

| | 2010 | 2009 |
|---|---|---|
| | AED'000 | AED'000 |
| Al Islamic Capital Protected CROCI (Note 15) | 9,777 | - |

The Al Islamic Capital Protected CROCI note is a capital guaranteed investment product that provides exposure to international stock markets. The product has a 5 years capital protection till July 2011 and has a fortnightly redemption facility.

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## 7. Other financial assets measured at fair value through other comprehensive income (FVTOCI)

| | 2010 | 2009 |
|---|---|---|
| | AED'000 | AED'000 |
| Investment in equity securities | 181,704 | 265,726 |
| Managed funds | 333,703 | 738,067 |
| | 515,407 | 1,003,793 |

Investments by geographic concentration are as follows:

| | 2010 | 2009 |
|---|---|---|
| | AED'000 | AED'000 |
| - Within U.A.E. | 435,181 | 889,764 |
| - Outside U.A.E. | 80,226 | 114,029 |
| | 515,407 | 1,003,793 |

# Notes to the Consolidated Financial Statements - continued

FOR THE YEAR ENDED DECEMBER 31, 2010

## 8. Property and Equipment

| | Land | Computers and information system | Leasehold improvement | Furniture and office equipment | Motor vehicles | Work-in-progress | Total |
|---|---|---|---|---|---|---|---|
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| **Cost or fair value** | | | | | | | |
| At 31 December 2008 | 280,000 | 57,425 | 10,985 | 10,133 | 252 | 7,254 | 366,049 |
| Additions | - | 6,569 | 281 | 50 | - | 5,982 | 12,882 |
| Transfers | - | 3,467 | - | 415 | - | (3,882) | - |
| Grant transferred back* | (280,000) | - | - | - | - | - | (280,000) |
| **At 31 December 2009** | **-** | **67,461** | **11,266** | **10,598** | **252** | **9,354** | **98,931** |
| Acquisition of a Subsidiary (Note 15) | - | 45,186 | - | 15,200 | - | - | 60,386 |
| Additions | - | 966 | - | 141 | - | 10,282 | 11,389 |
| Transfers | - | 10,285 | - | - | - | (10,285) | - |
| **At 31 December 2010** | **-** | **123,898** | **11,266** | **25,939** | **252** | **9,351** | **170,706** |
| | | | | | | | |
| **Accumulated depreciation** | | | | | | | |
| At 31 December 2008 | - | 39,552 | 9,408 | 8,471 | 241 | - | 57,672 |
| Charge for the year | - | 9,262 | 872 | 1,182 | 11 | - | 11,327 |
| **At 31 December 2009** | **-** | **48,814** | **10,280** | **9,653** | **252** | **-** | **68,999** |
| Acquisition of a Subsidiary (Note 15) | - | 37,238 | - | 7,251 | - | - | 44,489 |
| Charge for the year | - | 15,246 | 500 | 1,466 | - | - | 17,212 |
| **At 31 December 2010** | **-** | **101,298** | **10,780** | **18,370** | **252** | **-** | **130,700** |
| | | | | | | | |
| **Carrying amount** | | | | | | | |
| **At 31 December 2010** | **-** | **22,600** | **486** | **7,569** | **-** | **9,351** | **40,006** |
| **At 31 December 2009** | **-** | **18,647** | **986** | **945** | **-** | **9,354** | **29,932** |

* In 2007, Government of Dubai granted the Company a plot of land to construct new premises. The land was recorded by the Company at its fair value. During the year ended 31 December 2009, management confirmed that the conditions attached to the Government Grant had not been met and accordingly the value of the land of AED 280 million and related deferred income of AED 280 million were reversed.

FOR THE YEAR ENDED DECEMBER 31, 2010

## 9. Intangible assets

| | License to operate as a Stock Exchange | Relationships with market participants (Brokers) | Historical trading database | Total |
|---|---|---|---|---|
| | AED'000 | AED'000 | AED'000 | AED'000 |
| **Fair value** | | | | |
| As at 31 December 2008 | 2,824,455 | 58,743 | 67,456 | 2,950,654 |
| As at 31 December 2009 | 2,824,455 | 58,743 | 67,456 | 2,950,654 |
| **As at 31 December 2010** | **2,824,455** | **58,743** | **67,456** | **2,950,654** |
| **Amortization** | | | | |
| As at 31 December 2008 | 112,978 | 11,748 | 26,982 | 151,708 |
| Charge for the year | 56,489 | 5,874 | 13,491 | 75,854 |
| As at 31 December 2009 | 169,467 | 17,622 | 40,473 | 227,562 |
| Charge for the year | 56,489 | 5,874 | 13,491 | 75,854 |
| **As at 31 December 2010** | **225,956** | **23,496** | **53,964** | **303,416** |
| **Carrying amount** | | | | |
| **At 31 December 2010** | **2,598,499** | **35,247** | **13,492** | **2,647,238** |
| At 31 December 2009 | 2,654,988 | 41,121 | 26,983 | 2,723,092 |

## 10. Cash and bank balance

| | 2010 | 2009 |
|---|---|---|
| | **AED'000** | AED'000 |
| Cash on hand | **304** | 42 |
| Bank balances: | | |
| Current accounts* | **17,901** | 1,075 |
| Saving accounts | **231** | 2,505 |
| Mudarabah accounts | **229,544** | 29,840 |
| | **247,980** | 33,462 |
| Add: Islamic investment deposit maturing in less than 3 months from the date of deposit (Note 5) | **228,847** | 305,782 |
| Cash and cash equivalents | **476,827** | 339,244 |

* Included in the current accounts, members margin deposits which the clearing members are required to provide margin in respect of their clearing and settlement obligations to the NASDAQ Dubai. Margins are held in a segregated account in the name of NASDAQ Dubai at a clearing bank. Margins provided by a clearing member are used by the NASDAQ Dubai towards discharging the clearing members' obligations to NASDAQ Dubai (if any) following a declared default by that clearing member.

The rate of return on the Mudarabah accounts are between 1.50% and 1.68% (2009: 1.00% to 2.00%) per annum.

# Notes to the Consolidated Financial Statements - continued

FOR THE YEAR ENDED DECEMBER 31, 2010

## 11. Prepaid expenses and other receivables`

| | 2010 | 2009 |
|---|---|---|
| | AED'000 | AED'000 |
| Accrued revenue on Islamic investment deposits | 9,941 | 14,827 |
| Accrued trading commission fees | 751 | 2,129 |
| Due from brokers | 5,461 | 5,467 |
| Prepaid expenses | 5,601 | 2,957 |
| Other receivables | 4,739 | 3,559 |
| | 26,493 | 28,939 |
| Less: Allowance for doubtful debts | (2,819) | (2,259) |
| | 23,674 | 26,680 |

Accrued trading commission fees are collected within two working days from the trading date. Accrued revenue from Islamic investments deposits are collected on the due date of the profit as set in the contractual agreements with the financial institution.

Net movement in allowance for doubtful debts:

| | 2010 | 2009 |
|---|---|---|
| | AED'000 | AED'000 |
| Opening balance | 2,259 | 2,023 |
| Charges during the year | 560 | 236 |
| Ending balance | 2,819 | 2,259 |

## 12. Share capital

a. The Company's share capital of AED 8 billion is divided into 8 billion shares of AED 1 per share. The Company has one class of ordinary share which carries no right for fixed income.
b. As part of the acquisition of NASDAQ Dubai (Note 15), the Company transferred 50 million of its treasury shares to NASDAQ OMX.

## 13. Net initial public offering surplus

| | AED'000 |
|---|---|
| Initial public offering fees collected (AED 0.03 for each share) | 48,000 |
| Less: Incorporation expenses incurred | (16,392) |
| Surplus taken to equity during 2007 | 31,608 |

FOR THE YEAR ENDED DECEMBER 31, 2010

## 14. Statutory and other reserves

| | Statutory reserve | Special reserve | General reserve | Total |
|---|---|---|---|---|
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Balance as of 31 December 2008 | 204,458 | 204,458 | 204,458 | 613,374 |
| Transfer from net income for the year | 34,662 | - | - | 34,662 |
| Transfer to retained earnings* | - | (204,458) | (204,458) | (408,916) |
| **Balance as of 31 December 2009** | **239,120** | **-** | **-** | **239,120** |
| Transfer from net income for the year | 7,896 | - | - | 7,896 |
| **Balance as of 31 December 2010** | **247,016** | **-** | **-** | **247,016** |

* During the year ended 2009, the Board of Directors proposed to discontinue the allocation of the 10% of the Group's annual net profit to the general reserve and to transfer the general reserve to the retained earnings. The proposal was ratified by a resolution of the shareholders during the annual general assembly meeting held on 5 April 2009.

In addition to the above, the Board of Directors proposed to discontinue the allocation of the 10% of the Group's annual net profit to the special reserve and to transfer the reserve to retained earnings. The proposal was ratified by a resolution of the shareholders during the extraordinary general assembly meeting held on 5 April 2009.

***Statutory reserve***
In accordance with UAE Federal Companies Law Number 8 of 1984, as amended, the Group has established a statutory reserve by appropriation of 10% of its net profit for each year until the reserve equals 50% of the share capital. This reserve is not available for distribution, except as stipulated by the Law.

***Special reserve***
As per the Company's original Articles of Association, 10% of the Group's annual net profit is to be allocated to special reserve until this reserve reaches 50% of the paid up capital.

During 2009, the shareholders resolved to stop allocation to the special reserve and to transfer the accumulated balance to retained earnings.

***General reserve***
As per the Company's original Articles of Association, 10% of the Group's annual net profit is to be allocated to general reserve until this reserve reaches 20% of the paid up capital. During 2009, the shareholders resolved to stop allocation to the general reserve and to transfer the accumulated balance to retained earnings.

***Investments revaluation reserve - FVTOCI***
The investments revaluation reserve represents accumulated gains and losses arising on the revaluation of financial assets at fair value through other comprehensive income.

# Notes to the Consolidated Financial Statements - continued

FOR THE YEAR ENDED DECEMBER 31, 2010

## 15. Acquisition of NASDAQ Dubai Limited

On 22 December 2009, DFM announced that it had made an offer to Borse Dubai and The NASDAQ OMX Group Inc. (“NASDAQ OMX”) to acquire 100% of NASDAQ Dubai.

The offer, which was approved by Borse Dubai and NASDAQ OMX, was valued at AED 445 million and comprised of AED 353 million in cash and 50 million DFM shares. The transaction was endorsed by DFM’s Board of Directors on Monday December 21, 2009 and was subject to certain closing conditions. On 2 March 2010 the parties signed the share sale and purchase agreement, which was conditional upon satisfaction of certain conditions.

On completion of the transaction NASDAQ OMX will become a shareholder of DFM through a minority stake of 1%. NASDAQ OMX will continue to allow NASDAQ Dubai to use its brand and technology. The NASDAQ OMX stake in DFM will not require issuance of new shares as 50 million shares will be transferred from DFM and an additional 30 million shares will be purchased from Borse Dubai.

As per the transaction term sheet, the parties agreed that DFM will acquire 100% of the share capital of NASDAQ Dubai from Borse Dubai and NASDAQ OMX (67% and 33% shareholding respectively). The total consideration for the transaction due from DFM will amount to AED 445 million to be paid as follows:

1. First completion, which was executed on 24 May 2010 by transferring 50 million DFM treasury shares to NASDAQ OMX and paying a cash consideration of AED 56 million to Borse Dubai to transfer 30 million of DFM shares to NASDAQ OMX in order to acquire 5 million shares of NASDAQ Dubai.
2. Second completion, which was executed on 24 May 2010 by paying cash consideration of AED 148 million to Borse Dubai to acquire additional 5 million shares of NASDAQ Dubai.
3. Third completion, related to the transfer of the last 5 million shares of NASDAQ Dubai to DFM for a cash consideration of AED 148 million from Borse Dubai, shall take place on a date no later than 31 December 2010 (or such other date as may agreed by DFM and Borse Dubai), at such place and time as agreed by DFM and Borse Dubai. The Board of Directors of Dubai Financial Market held a meeting on 8 January 2011 resolved to postpone the execution of the third completion to date that will be mutually agreed with Borse Dubai.

After completing the first and second completion, NASDAQ Dubai is currently 67% owned by DFM and 33% by Borse Dubai.

The consolidated financial statement for the year ended 31 December 2010 includes total assets of AED 182 million, total liabilities of AED 88 million and a net loss of AED 16 million as a result of the consolidation of NASDAQ Dubai. The book value of assets and liabilities acquired at 24 May 2010 were as follows:

FOR THE YEAR ENDED DECEMBER 31, 2010

## Acquisition of NASDAQ Dubai Limited (continued)

| | 24 May 2010 |
|---|---|
| | AED'000 |
| Net assets acquired at book value | |
| Property and equipment | 15,897 |
| Investments in securities | 8,792 |
| Fixed deposit | 91,750 |
| Cash and cash equivalents | 63,782 |
| Other assets | 5,872 |
| Current accounts - margin deposits | 44,051 |
| Payables and accrued expenses | (17,022) |
| Due to members | (44,021) |
| Subordinated loan | (56,878) |
| Provision for employees' end of service indemnity | (1,609) |
| | **110,614** |
| Less: Non-controlling interest | (36,868) |
| Net assets acquired | 73,746 |
| Purchase consideration | (296,779) |
| **Excess of purchase consideration over net assets acquired** | **(223,033)** |
| Capital reserve: | |
| Excess of purchase consideration over net assets acquired | **(223,033)** |
| Premium arising on transfer of 50 million treasury share to NASDAQ OMX | 41,083 |
| | **(181,950)** |
| Net cash outflow arising on acquisition | |
| Cash consideration paid | (204,192) |
| Cash and cash equivalent acquired | 63,782 |
| | **(140,410)** |

# Notes to the Consolidated Financial Statements - continued

FOR THE YEAR ENDED DECEMBER 31, 2010

## 16. Dividends

The Board of directors proposed in their meeting held on 21 April 2010 (2009: 5 April 2009) a cash dividend of 5% (2009: 8%) of issued share capital, the proposal was ratified by the shareholders during their annual general assembly meeting held on 21 April 2010.

## 17. Provision for employees' end of service indemnity

| | 2010 | 2009 |
|---|---|---|
| | AED'000 | AED'000 |
| Balance at the beginning of the year | 3,279 | 2,578 |
| Acquisition of a Subsidiary (Note 15) | 1,609 | - |
| Charged during the year | 1,475 | 957 |
| Paid during the year | (298) | (256) |
| Balance at the end of the year | 6,065 | 3,279 |

## 18. Payables and accrued expenses

| | 2010 | 2009 |
|---|---|---|
| | AED'000 | AED'000 |
| Brokers' deposits | - | 830 |
| Due to U.A.E. Securities and Commodities Authority | 1,496 | 6,464 |
| Unearned revenue | 5,368 | 6,648 |
| Accrued expenses and other payables | 22,953 | 8,473 |
| Members margin deposits | 11,205 | - |
| Balance at the end of the year | 41,022 | 22,415 |

FOR THE YEAR ENDED DECEMBER 31, 2010

## 19. Related party transactions

The Group enters into transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard 24: Related Party Disclosures. Related parties comprise companies under common ownership and/or common management and control and key management personnel.

At the reporting date, due from a related party were as follows:

| | 2010<br>AED'000 | 2009<br>AED'000 |
|---|---|---|
| Due from a related party | | |
| ***Parent company*** | | |
| Borse Dubai Limited - Islamic investment deposits | **149,882** | 140,000 |
| Borse Dubai Limited - current account | **2,618** | 3,914 |
| Due to related parties | | |
| ***Ultimate controlling party*** | | |
| Dubai Government | **48,500** | 48,500 |
| ***Parent company*** | | |
| Borse Dubai Limited - dividends payable | **164,000** | 99,000 |
| Borse Dubai loan - subordinated loan | **58,414** | - |

As per the initial public offering prospectus, 20% of the share capital amounting to AED 1,600,000,000 was offered for public subscription for the credit of Dubai Government of which AED 48.5 million remains as due to the Dubai Government.

The subordinated loan has been provided by the parent company, Borse Dubai Ltd. to the Group. The subordinated loan is unsecured, has no fixed repayment date and bears interest rate of 12 month LIBOR plus 3.25% on the outstanding balance. The subordinated loan is classified as non-current because the parent company has confirmed that it will not seek repayment.

The nature of significant related party transactions and amounts involved were as follows:

| | 2010<br>AED'000 | 2009<br>AED'000 |
|---|---|---|
| Profit on investment deposits | **9,463** | 11,310 |
| Rent and service expense | **9,030** | 5,767 |
| Finance cost | **1,536** | - |

***Compensation of key management personnel***

The remuneration of directors and other members of key management during the year was as follows:

| | 2010<br>AED'000 | 2009<br>AED'000 |
|---|---|---|
| Short-term benefits | **4,852** | 4,409 |
| General pension and social security | **569** | 568 |

# Notes to the Consolidated Financial Statements - continued

FOR THE YEAR ENDED DECEMBER 31, 2010

## 20. Net investment revenue

| | 2010 | 2009 |
|---|---|---|
| | AED'000 | AED'000 |
| Return on Islamic investment deposits | 69,647 | 85,205 |
| Gain on sale of investment | - | 705 |
| Dividends | 3,521 | 5,600 |
| | 73,168 | 91,510 |

## 21. General and administrative expenses

| | 2010 | 2009 |
|---|---|---|
| | AED'000 | AED'000 |
| Payroll and other benefits | 57,226 | 43,141 |
| Rent | 9,030 | 5,767 |
| Depreciation | 17,212 | 11,327 |
| Professional expenses | 1,889 | 1,478 |
| Other | 28,565 | 18,747 |
| | 113,922 | 80,460 |

## 22. Earning per share

| | 2010 | 2009 |
|---|---|---|
| | AED'000 | AED'000 |
| Net profit for the year attributable to the owner of the company (AED'000) | 78,961 | 346,615 |
| Authorized share capital ('000) | 8,000,000 | 8,000,000 |
| Less: Treasury shares ('000) | (4,237) | (54,236) |
| Number of shares issued ('000) | 7,995,763 | 7,945,764 |
| Weighted average number of shares ('000) | 7,976,037 | 7,945,764 |
| Earning per share - AED | 0.01 | 0.04 |

Basic earnings per share are calculated by dividing the net profit for the year attributable to owner of the Company by the number of weighted average outstanding as of the reporting date.

FOR THE YEAR ENDED DECEMBER 31, 2010

## 23. Commitments

The Group enters into transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard 24: Related Party Disclosures. Related parties comprise companies under common ownership and/or common management and control and key management personnel.

At the reporting date, due from a related party were as follows:

| | 2010 | 2009 |
|---|---|---|
| | AED'000 | AED'000 |
| Commitments for the purchase of property and equipment | 5,177 | 3,656 |

The commitment to acquire the remaining 33% of NASDAQ Dubai is required to be settled on the completion of the acquisition for AED 148 million. The carrying value of the 33% non-controlling interest of NASDAQ Dubai at 31 December 2010 is AED 31 million (Note 15).

## 24. Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders.

## 25. Financial instruments

***Significant accounting policies***

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the consolidated financial statements.

***Financial risk management objectives***

The Group finance department monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, and price risk and interest rate risk), credit risk and liquidity risk.

***Currency risk***

The Group's activities are not exposed to the financial risks of changes in foreign currency exchange rates and interest rates because substantially all the financial assets and liabilities are denominated in United Arab Emirates Dirhams or US Dollars which Dirhams is fixed.

***Interest rate risk management***

The Group's exposure to interest rate risk relates to its subordinated loan and bank fixed deposits.

***Interest rate sensitivity analysis***

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. A 50 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2010 would decrease/increase by AED 292,070.

# Notes to the Consolidated Financial Statements - continued

FOR THE YEAR ENDED DECEMBER 31, 2010

***Price risks***

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade in these investments.

***Equity price sensitivity analysis***

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If equity prices had been 5% higher/lower:

- Net profit for the year ended 31 December 2010 would have been increase/decrease AED 488,850 relating to change of the prices of the financial assets through profit and loss.
- Investment revaluation reserves would increase/decrease by AED 47 million (2009: AED 58 million) as a result of the changes in fair value of the investments.

***Credit risk management***

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transact with licensed brokers. The credit exposure is controlled by counterparty limits that are reviewed and approved by the management.

Although the Group's credit exposure is to a group of counterparties having similar characteristics and industry, the credit risk is limited because the counterparties collateralized their debts.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

***Liquidity risk management***

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

The liquidity profile of financial assets and financial liabilities were as follows:

| | Within 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **31 December 2010** | **AED'000** | **AED'000** | **AED'000** | **AED'000** | **AED'000** | **AED'000** |
| **FINANCIAL ASSETS** | | | | | | |
| Cash and bank balances | 247,980 | - | - | - | - | 247,980 |
| Islamic investment deposits | 324,873 | 1,850 | 155,427 | 1,067,260 | - | 1,549,410 |
| Other financial assets FVTOCI | - | - | - | 515,407 | - | 515,407 |
| Due from a related party | - | - | 2,618 | - | - | 2,618 |
| Other financial assets measured at fair value FVTPL | - | - | 9,777 | - | - | 9,777 |
| Other receivables | 20,892 | - | - | - | - | 20,892 |
| **Total financial assets** | **593,745** | **1,850** | **167,822** | **1,582,667** | **-** | **2,346,084** |
| | | | | | | |
| **FINANCIAL LIABILITIES** | | | | | | |
| Payables and accrued expenses | 235,997 | - | - | - | 6,065 | 242,062 |
| Subordinated loan | - | - | - | 58,414 | - | 58,414 |
| Due to a related party | - | - | 48,500 | - | - | 48,500 |
| **Total financial liabilities** | **235,997** | **-** | **48,500** | **58,414** | **6,065** | **348,976** |

FOR THE YEAR ENDED DECEMBER 31, 2010

| 31 December 2009 | Within 3 months AED'000 | 3 to 6 months AED'000 | 6 to 12 months AED'000 | 1 to 5 years AED'000 | Over 5 years AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | |
| Cash and bank balances | 33,462 | - | - | - | - | 33,462 |
| Islamic investment deposits | 305,782 | 196,895 | 979,615 | 38,527 | - | 1,520,819 |
| Other financial assets | - | - | - | 1,003,793 | - | 1,003,793 |
| Due from a related party | 3,914 | - | - | - | - | 3,914 |
| Other receivables | 25,982 | - | - | - | - | 25,982 |
| **Total financial assets** | **369,140** | **196,895** | **979,615** | **1,042,320** | **-** | **2,587,970** |
| | | | | | | |
| **FINANCIAL LIABILITIES** | | | | | | |
| Payables and accrued expenses | 39,907 | 99,000 | - | - | - | 138,907 |
| Due to a related party | - | - | 48,500 | - | - | 48,500 |
| **Total financial liabilities** | **39,907** | **99,000** | **48,000** | **-** | **-** | **187,407** |

***Fair value of financial instruments***

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

***Fair value of financial instruments carried at amortized cost***

The directors consider that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the consolidated financial statements approximate their fair values.

Valuation techniques and assumptions applied for the purposes of measuring fair value.

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

***Fair value measurements recognised in the statement of financial position***

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# Notes to the Consolidated Financial Statements - continued

FOR THE YEAR ENDED DECEMBER 31, 2010

| | | | | December 31, 2010 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | AED'000 | AED'000 | AED'000 | AED'000 |
| **Financial assets at fair value through other comprehensive income** | | | | |
| Equities | 171,190 | - | 10,514 | 181,704 |
| Managed funds | - | 267,541 | 66,162 | 333,703 |
| **Total** | **171,190** | **267,541** | **76,676** | **515,407** |
| **Financial assets at fair value through profit and loss** | | | | |
| Debt instrument | - | 9,777 | - | 9,777 |
| | **-** | **9,777** | **-** | **9,777** |

| | | | | December 31, 2009 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | AED'000 | AED'000 | AED'000 | AED'000 |
| **Financial assets at fair value through other comprehensive income** | | | | |
| Equities | 247,310 | - | 18,416 | 265,726 |
| Managed funds | - | 642,455 | 95,612 | 738,067 |
| **Total** | **247,310** | **642,455** | **114,028** | **1,003,793** |

There were no transfers between Level 1 and 2 during the year.

*Reconciliation of Level 3 fair value measurements of financial assets*

| | Financial assets at FVTOCI | |
|---|---|---|
| | Unquoted equities | |
| | 2010 | 2009 |
| | AED'000 | AED'000 |
| Opening balance | 114,028 | 114,166 |
| Disposal during the year | (19,151) | (1,842) |
| In other comprehensive (loss)/income | (18,201) | 1,704 |
| Closing balance | 76,676 | 114,028 |

The investments classified under level 3 categories include an amount of AED 36 million classified at cost. Cost is considered to be the best estimate of fair value as there are no indicators that the cost might not be representative of fair value for such unquoted equity instruments.

FOR THE YEAR ENDED DECEMBER 31, 2010

## 26. Comparatives

***Early adoption of IFRS 9 during 2009***

The Company has adopted IFRS 9 Financial Instruments (IFRS 9) in 2009 in advance of its effective date. The Company has chosen 31 December 2009 as its date of initial application (i.e. the date on which the Company has assessed its existing financial assets).

The impact of adopting IFRS 9 has been a reversal of unrealized losses from investment revaluation reserve - AFS to investment revaluation reserve - FVTOCI of AED 974 million as result of reclassifying as at 1 January 2009 available for sale investments to financial assets measured at fair value through other comprehensive income. This reclassification has also resulted in a reversal of impairment losses, previously recognized in the income statement from retained earnings to investment revaluation reserve - FVTOCI for an amount of AED 250 million.

As IFRS 9 was early adopted during 2009, the cumulative changes in fair value of available for sale investments of AED 1,163 million was not tested for impairment but transferred to investment revaluation reserve - other comprehensive income as allowed by IFRS 9.

***Acquisition of NASDAQ Dubai during 2010***

The figures in consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows are not comparable as the previous period figures do not include the assets, liabilities and operational results of the subsidiary acquired (Note 15) during the period.

## 27. Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2010 were approved by the Board of Directors and authorized for issue on 14 March 2011.(including currency risk, and price risk and interest rate risk), credit risk and liquidity risk.