



## SIB Sukuk Company III Limited

(incorporated in the Cayman Islands with limited liability)

U.S.\$1,500,000,000

### Trust Certificate Issuance Programme

Under the U.S.\$1,500,000,000 trust certificate issuance programme described in this Base Prospectus (the **Programme**), SIB Sukuk Company III Limited (in its capacities as issuer and as trustee, the **Trustee**), subject to compliance with all applicable laws, regulations and directives, may from time to time issue trust certificates (the **Certificates**) in any currency agreed between the Trustee and the relevant Dealer (as defined below).

Certificates may only be issued in registered form. The maximum aggregate face amount of all Certificates from time to time outstanding under the Programme will not exceed U.S.\$1,500,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

Each Series (as defined herein) of Certificates issued under the Programme will be constituted by: (i) a master trust deed (the **Master Trust Deed**) dated 8 April 2013 entered into between the Trustee, Sharjah Islamic Bank PJSC (**SIB**) and Citicorp Trustee Company Limited as delegate of the Trustee (the **Delegate**, which expression shall include any co-Delegate or any successor); and (ii) a supplemental trust deed (the **Supplemental Trust Deed**) and, together with the Master Trust Deed, each a **Trust Deed**) in relation to the relevant Series. Certificates of each Series confer on the holders of the Certificates from time to time (the **Certificateholders**) the right to receive certain payments (as more particularly described herein) arising from a *pro rata* ownership interest in the assets of a trust declared by the Trustee in relation to the relevant Series (the **Trust**) over the Trust Assets (as defined below) which will include, *inter alia*: (i) the relevant Portfolio (as defined herein); and (ii) the relevant Transaction Documents (as defined below).

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

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

This Base Prospectus has been approved by the Central Bank of Ireland (the **Irish Central Bank**) as competent authority under Directive 2003/71/EC (the **Prospectus Directive**). The Irish Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union (**EU**) law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for Certificates issued under the Programme during the 12 months from the date of this Base Prospectus to be admitted to the official list (the **Official List**) and trading on its regulated market (the **Regulated Market**). Such approval relates only to the Certificates which are to be admitted to trading on the regulated market of the Irish Stock Exchange or any other regulated markets for the purposes of Directive 2004/39/EC (each such regulated market being a **MiFID Regulated Market**) or which are to be offered to the public in any member state of the European Economic Area (each a **Member State**).

References in this Base Prospectus to Certificates being **listed** (and all related references) shall mean that such Certificates have been admitted to listing on the Official List and admitted to trading on the Regulated Market or, as the case may be, another MiFID Regulated Market. The Programme provides that Certificates may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Trustee, SIB and the relevant Dealer. The Trustee may also issue unlisted Certificates and/or Certificates not admitted to trading on any market.

Notice of the aggregate face amount of Certificates and any other terms and conditions not contained herein which are applicable to each Series will be set out in a final terms document (the **applicable Final Terms**) which, with respect to Certificates to be listed on the Irish Stock Exchange, will be delivered to the Irish Central Bank and the Irish Stock Exchange on or around the date of issue of such Series.

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

SIB has been assigned ratings of BBB+ by Fitch Ratings Ltd. (**Fitch**) and BBB+ by Standard & Poor's Credit Market Services Europe Limited (**S&P**), each with stable outlook. The Programme has been assigned ratings of BBB+ by Fitch and BBB+ by S&P. The United Arab Emirates has been assigned a credit rating of Aa2 with a stable outlook by Moody's Investors Service Singapore Pte. Ltd. Moody's Investors Service Singapore Pte. Ltd. is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). The rating has been endorsed by Moody's Investors Services Ltd. (**Moody's**) in accordance with the CRA Regulation. Each of Fitch, Moody's and S&P is established in the European Union and is registered under the CRA Regulation. As such, each of Fitch, Moody's and S&P is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

Certificates issued under the Programme may be rated or unrated. When a Series of Certificates is rated, such rating will be disclosed in the Final Terms and will not necessarily be the same as the rating applicable to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

The Certificates have not been nor will be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) nor with any securities regulatory authority of any state or other jurisdiction of the United States and the Certificates may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S under the Securities Act (**Regulation S**)) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, Certificates may be offered or sold solely to persons who are not U.S. persons (as defined in Regulation S) outside the United States in reliance on Regulation S. Each purchaser of the Certificates is hereby notified that the offer and sale of Certificates to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

The transaction structure relating to the Certificates (as described in this Base Prospectus) has been approved by the Fatwa & Shari'a Supervisory Board of SIB in liaison with Dar Al Sharia Legal & Financial Consultancy LLC, the HSBC Amanah Central Shariah Committee and the Shari'a Supervisory Committee of Standard Chartered Bank. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own Shari'a advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with Shari'a principles.

#### Arrangers

HSBC

Standard Chartered Bank

#### Dealers

Al Hilal Bank PJSC

HSBC

Liquidity House

Standard Chartered Bank

The date of this Base Prospectus is 8 April 2013.

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the **Prospectus Directive**) as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State) and for the purpose of giving information with regard to the Trustee, SIB and the Certificates which, according to the particular nature of the Trustee, SIB and the Certificates, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Trustee and SIB.

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

Certain information under the headings “Risk Factors”, “Description of Sharjah Islamic Bank PJSC”, “Overview of the United Arab Emirates and the Emirate of Sharjah” and “The United Arab Emirates Banking Sector and Prudential Regulations” has been extracted from information provided by: (i) the UAE Central Bank, in the case of “Risk Factors”; (ii) the UAE and Sharjah governments, and the UAE Central Bank, in the case of “Description of Sharjah Islamic Bank PJSC”; (iii) the BP Statistical Review of World Energy, the Organization of Oil Exporting Countries (OPEC), the UAE Central Bank, and the UAE and Sharjah governments, in the case of “Overview of the United Arab Emirates and the Emirate of Sharjah”; and (iv) the Abu Dhabi Securities Exchange, the Dubai Financial Market and the UAE Central Bank, in the case of “The United Arab Emirates Banking Sector and Regulations”, and, in each case, the relevant source of such information is specified where it appears under those headings.

Each of the Trustee and SIB confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant sources referred to, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Base Prospectus should be read and construed together with any amendments or supplements hereto and, in relation to any Series of Certificates, should be read and construed together with the applicable Final Terms.

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

No person is or has been authorised by the Trustee or SIB to give any information or to make any representation not contained in or not consistent with this Base Prospectus in connection with the Programme or the Certificates and, if given or made, such information or representation must not be relied upon as having been authorised by the Trustee, SIB, the Dealers (as defined under “*Overview of the Programme*”), the Delegate, the Agents (each as defined herein) or any other person. Neither the delivery of this document nor any sale of any Certificates shall, under any circumstances, constitute a representation or create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Delegate and the Dealers expressly do not undertake to review the financial condition or affairs of the Trustee or SIB at any point, including during the life of the Programme, or to advise any investor in the Certificates of any information coming to their attention.

None of the Dealers, the Delegate or the Agents has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of them as to the accuracy, adequacy, reasonableness or completeness of the information contained in this Base Prospectus or any other information provided by SIB in connection with the Programme.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Certificates is: (i) intended to provide the basis of any credit or other evaluation; or (ii) should be considered as a recommendation by the Trustee, SIB, the Dealers, the Delegate or the Agents that any recipient of this Base Prospectus should purchase any Certificates. Each investor contemplating purchasing any Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Trustee and SIB. None of the Dealers, the Trustee, the Delegate or the Agents accepts any liability in relation to the information contained in this Base Prospectus or any other information provided by the Trustee and SIB in connection with the Programme.

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

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

Some Certificates are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Certificates which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Certificates will perform under changing conditions, the resulting effects on the value of the Certificates and the impact this investment will have on the potential investor's overall investment portfolio.

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

No comment is made or advice given by the Trustee, SIB, the Dealers, the Delegate or the Agents in respect of taxation matters relating to any Certificates or the legality of the purchase of the Certificates by an investor under any applicable law.

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

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Certificates may be restricted by law in certain jurisdictions. None of the Trustee, SIB, the Dealers, the Delegate or the Agents represents that this Base Prospectus may be lawfully distributed, or that any Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Trustee, SIB, the Dealers, the Delegate or the Agents which is intended to permit a public offering of any Certificates or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of the Certificates. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Certificates in the United States, the European Economic Area (including the Republic of Ireland and the United Kingdom), the Cayman Islands, Japan, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Kingdom of Saudi Arabia, the Kingdom of Bahrain, the State of Qatar (excluding the Qatar Financial Centre), Singapore, Hong Kong and Malaysia, see “*Subscription and Sale*”.

This Base Prospectus has been prepared on the basis that any offer of Certificates in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Certificates. Accordingly any person making or intending to make an offer in that Relevant Member State of Certificates which are the subject of an offering contemplated in this Base Prospectus as completed by Final Terms in relation to the offer of those Certificates may only do so in circumstances in which no obligation arises for the Trustee, SIB or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. None of the Trustee, SIB or any Dealer have authorised, nor do they authorise, the making of any offer of Certificates in circumstances in which an obligation arises for the Trustee, SIB or any Dealer to publish or supplement a prospectus for such offer.

None of the Dealers, the Trustee, SIB or the Delegate makes any representation to any investor in the Certificates regarding the legality of its investment under any applicable laws. Any investor in the Certificates should be able to bear the economic risk of an investment in the Certificates for an indefinite period of time.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### PRESENTATION OF FINANCIAL INFORMATION

The financial statements relating to SIB included in this Base Prospectus are as follows:

- audited consolidated financial statements as at and for the financial year ended 31 December 2012 (the **2012 Financial Statements**); and
- audited consolidated financial statements as at and for the financial year ended 31 December 2011 (the **2011 Financial Statements** and, together with the 2012 Financial Statements, the **Annual Financial Statements**).

Each of the Annual Financial Statements (together, the **Financial Statements**) have been prepared in accordance with International Financial Reporting Standards (**IFRS**) issued by the International Accounting Standards Board (the **IASB**), guidance of the Central Bank of the UAE and Islamic *Shari'a* principles and applicable requirements of the Federal laws relating to Islamic banks. The Annual Financial Statements have been audited in accordance with International Standards on Auditing by KPMG without qualification.

SIB publishes its financial statements in UAE dirham.

### PRESENTATION OF UAE STATISTICAL INFORMATION

The statistical information in the section entitled "*Overview of the United Arab Emirates and the Emirate of Sharjah*" has been accurately reproduced from a number of different identified sources. All statistical information provided in that section may differ from that produced by other sources for a variety of reasons, including the use of different definitions and cut-off times. GDP data is not final and may be subject to revision in future periods and certain other historical GDP data set out in that section may also be subject to future adjustment.

### PRESENTATION OF OTHER INFORMATION

In this Base Prospectus, references to:

- **Abu Dhabi, Dubai and Sharjah** are to the Emirate of Abu Dhabi, the Emirate of Dubai and the Emirate of Sharjah, respectively;
- **dirham** and **AED** are to the lawful currency of the UAE and references to **fil** are to the sub-unit of the dirham;
- **euro** and **€** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union;
- the **GCC** are to the Gulf Co-operation Council;
- the **MENA region** are to the Middle East and North Africa region;
- the **UAE** are to the United Arab Emirates; and
- **U.S.\$, USD** or **U.S. dollars** are to the lawful currency of the United States.

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

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

The language of the Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Information contained in any website referred to herein does not form part of this Base Prospectus.

### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Some statements in this Base Prospectus may be deemed to be “forward-looking statements”. Forward-looking statements include statements concerning SIB’s plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. When used in this Base Prospectus, the words “anticipates”, “estimates”, “expects”, “believes”, “intends”, “plans”, “aims”, “seeks”, “may”, “will”, “should” and any similar expressions generally identify forward-looking statements. These forward-looking statements are contained in the sections entitled “*Risk Factors*” and “*Description of Sharjah Islamic Bank PJSC*” and other sections of this Base Prospectus. SIB has based these forward-looking statements on the current view of its management with respect to future events and financial performance. Although SIB believes that the expectations, estimates and projections reflected in its forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise, including those identified below or which SIB has otherwise identified in this Base Prospectus, or if any of SIB’s underlying assumptions prove to be incomplete or inaccurate, SIB’s actual results of operation may vary from those expected, estimated or predicted. Investors are therefore strongly advised to read the sections “*Risk Factors*”, “*Description of Sharjah Islamic Bank PJSC*” and “*The United Arab Emirates Banking Sector and Prudential Regulations*”, which include a more detailed description of the factors that might have an impact on SIB’s business development and on the industry sector in which SIB operates.

The risks and uncertainties referred to above include:

- macro-economic and financial market conditions and, in particular, the global financial crisis;
- credit risks, including the impact of a higher level of credit defaults arising from adverse economic conditions (in particular in relation to the real estate sector), the impact of provisions and impairments and concentration of SIB’s portfolio of Islamic financing and investing assets;
- liquidity risks, including the inability of SIB to meet its contractual and contingent cash flow obligations or the inability to fund its operations; and
- changes in profit rates and other market conditions.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “*Risk Factors*”.

These forward-looking statements speak only as at the date of this Base Prospectus. Without prejudice to any requirements under applicable laws, SIB expressly disclaims any obligation or undertaking to disseminate after the date of this Base Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any forward-looking statement is based.

## NOTICE TO UK RESIDENTS

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

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

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

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

## CAYMAN ISLANDS NOTICE

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

## NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

This Base Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the *Capital Market Authority*). The Capital Market Authority does not make any representations as to the accuracy or completeness of this Base Prospectus, and expressly disclaims any liability whatsoever for any loss arising

from, or incurred in reliance upon, any part of this Base Prospectus. Prospective purchasers of Certificates should conduct their own due diligence on the accuracy of the information relating to the Certificates. If a prospective purchaser does not understand the contents of this Base Prospectus he or she should consult an authorised financial adviser.

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

The Central Bank of Bahrain has not in any way considered the merits of the Certificates to be offered for investment whether in or outside of the Kingdom of Bahrain. Neither the Central Bank of Bahrain nor the Bahrain bourse assumes responsibility for the accuracy and completeness of the statements and information contained in this Base Prospectus and each expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the contents of this Base Prospectus. Any offer of certificates in the Kingdom of Bahrain will be undertaken by way of private placement. Such offers are subject to the regulations of the Central Bank of Bahrain that apply to private offerings of securities and the disclosure requirements and other protections that these regulations contain. This Base Prospectus is therefore intended only for “accredited investors” (as defined below).

The Certificates offered in the Kingdom of Bahrain may only be offered in registered form in minimum denominations of U.S.\$100,000 (or equivalent in other currencies). This Base Prospectus does not constitute an offer to any person in the Kingdom of Bahrain other than an “accredited investor”. For this purpose, an “accredited investor” means:

- (a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more;
- (b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$1,000,000; or
- (c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

#### **NOTICE TO RESIDENTS OF THE STATE OF QATAR**

This Base Prospectus does not and is not intended to constitute an offer, sale or delivery of the Certificates under the laws of the State of Qatar and has not been and will not be reviewed or approved by or registered with the Qatar Financial Markets Authority or Qatar Central Bank. The Certificates are not and will not be traded on the Qatar Exchange.

#### **NOTICE TO RESIDENTS OF MALAYSIA**

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

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

## STABILISATION

IN CONNECTION WITH THE ISSUE OF ANY SERIES, THE DEALER OR DEALERS (IF ANY) NAMED AS STABILISING MANAGER(S) (OR ANY PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE SUBSCRIPTION AGREEMENT MAY OVER-ALLOT CERTIFICATES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE CAN BE NO ASSURANCE THAT THE STABILISING MANAGER (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE ISSUE DATE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE CERTIFICATES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE CERTIFICATES. ANY STABILISATION ACTION SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

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## **RISK FACTORS**

*The purchase of Certificates may involve substantial risks and is suitable only for sophisticated investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of an investment in the Certificates. Before making an investment decision, prospective purchasers of Certificates should consider carefully, in the light of their own financial circumstances and investment objectives, all of the information in this Base Prospectus.*

*Each of the Trustee and SIB believes that the factors described below represent the principal risks inherent in investing in the Certificates, but the inability of the Trustee to pay any amounts on or in connection with any Certificate may occur for other reasons and neither the Trustee nor SIB represents that the statements below regarding the risks of holding any Certificate are exhaustive.*

*Although the Trustee and SIB believe that the various structural elements described in this Base Prospectus mitigate some of these risks for Certificateholders, there can be no assurance that these measures will be sufficient to ensure payment to Certificateholders of any Periodic Distribution Amount or the Dissolution Amount or any other amounts payable in respect of the Certificates on a timely basis or at all. There may also be other considerations, including some which may not be presently known to the Trustee or SIB or which the Trustee or SIB currently deems immaterial, that may impact any investment in the Certificates.*

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

### **Risk factors relating to the Trustee**

The Trustee is a newly formed entity incorporated in the Cayman Islands on 11 March 2013 and has no operating history. The Trustee will not engage in, and has not as at the date of this Base Prospectus engaged in, any business activity other than the issuance of the Certificates, the acquisition of the Trust Assets as described herein, acting in the capacity as Trustee and other activities incidental or related to the foregoing as required under the Transaction Documents to which it is a party.

The Trustee’s only material assets, which will be held on trust for the Certificateholders, will be the Trust Assets, including its right to receive payments under the Transaction Documents. Therefore the Trustee is subject to all of the risks to which SIB is subject, to the extent that such risks could limit SIB’s ability to satisfy in full and on a timely basis its obligations under the Transaction Documents to which it is a party. See “*Risk factors relating to SIB and its business*” below for a further description of these risks.

The ability of the Trustee to pay amounts due on the Certificates will primarily be dependent upon receipt by the Trustee of all amounts due under the Transaction Documents. Such amounts are to be paid by SIB. In the aggregate these amounts may not be sufficient to meet all claims under the Certificates and the Transaction Documents.

### **Risk factors relating to SIB and its business**

#### ***Risks relating to SIB***

In the course of its business activities, SIB is exposed to a variety of risks, the most significant of which are liquidity risks, credit risks, operational risks and market risks. Whilst SIB believes it has implemented appropriate policies, systems and processes to control and mitigate these risks, investors should note that any failure to adequately control these risks, or predict unexpected market events that are beyond the control of SIB, could be greater than anticipated and could result

in a material adverse effect on SIB's business, reputation, financial condition, results of operations or prospects and thereby affect its ability to make payments in respect of any Certificates. In the last three years in particular, difficult macro-economic and financial market conditions have affected and could continue to materially adversely affect SIB's business.

### ***Political, economic and related considerations***

SIB's business is, and will continue to be, affected by economic and political developments in or affecting the UAE, the MENA region and investors' reactions to developments in one country may affect securities of issuers in other markets including the UAE. All of SIB's material operations and interests are located in the UAE. While the UAE is currently seen as a relatively stable political environment, certain other jurisdictions in the Middle East are not and there is no guarantee that the UAE will continue to be so in the future. In particular, since early 2011 there has been political unrest in a range of countries in the MENA region, including Algeria, Bahrain, Egypt, Libya, Oman, Saudi Arabia, Syria, Tunisia and Yemen. This unrest has ranged from public demonstrations to, in extreme cases, armed conflict and the overthrow of existing leadership and has given rise to increased political uncertainty across the region. It is not possible to predict the occurrence of events or circumstances such as war or hostilities, or the impact of such occurrences, and no assurance can be given that SIB would be able to sustain its current profit levels if adverse political events or circumstances were to occur.

Whilst the UAE has seen significant economic growth since 2000, there is no assurance that such growth will continue particularly in light of significant adverse financial and economic conditions experienced worldwide which commenced in early 2008. Since then, global credit markets, particularly in the United States and Europe, have experienced difficult conditions of varying intensity. These challenging market conditions have resulted at times in reduced liquidity, greater volatility, widening of credit spreads and lack of price transparency in credit markets and there has been a slowdown or reversal of the high rates of growth that had been experienced by many countries within the GCC and the UAE. In addition, since late 2008, property and construction markets in the UAE and a number of other countries in the MENA region have been significantly adversely affected. Consequently, certain sectors of the GCC economy, such as real estate, construction and financial institutions, that had benefitted from such a high rate of growth, have been materially adversely affected by the crisis, in particular, due to the volatility of the price of oil. Moreover, while the UAE Government's policies have generally resulted in improved economic performance, there can be no assurance that such level of performance can be sustained or that the UAE Government will not implement regulations, fiscal or monetary policies, including policies, regulations, or new legal interpretations of existing regulations, relating to or affecting taxation, interest rates or exchange controls, or otherwise take actions which could have a material adverse effect on SIB's business, reputation, financial condition, results of operations or prospects and thereby affect its ability to make payments in respect of any Certificates.

The economic and/or political factors which could adversely affect SIB's business, financial condition, results of operations and prospects include:

- regional political instability, including government or military regime change, riots or other forms of civil disturbance or violence, including through acts of terrorism;
- military strikes or the outbreak of war or other hostilities involving nations in the region;
- a material curtailment of the industrial and economic infrastructure development that is currently underway across the MENA region;
- government intervention, including expropriation or nationalisation of assets or increased levels of protectionism;
- an increase in inflation and the cost of living;

- cancellation of contractual rights, expropriation of assets and/or inability to repatriate profits and/or dividends;
- increased government regulations, or adverse governmental activities, with respect to price, import and export controls, the environment, customs and immigration, capital transfers, foreign exchange and currency controls, labour policies and land and water use and foreign ownership;
- arbitrary, inconsistent or unlawful government action;
- changing tax regimes, including the imposition of taxes in tax favourable jurisdictions such as the UAE;
- difficulties and delays in obtaining governmental and other approvals for operations or renewing existing ones; and
- inability to repatriate profits or dividends.

There can be no assurance that either the economic performance of, or political stability in, the countries in which SIB currently operates or may in the future operate can or will be sustained. Whilst SIB believes that it has implemented the appropriate policies, systems and processes to control and mitigate these risks (see “*Description of Sharjah Islamic Bank PJSC – Risk Management*”), investors should note that a worsening of current financial market conditions, instability in certain sectors of the UAE or regional economy or major political upheaval therein could lead to further decreases in investor and consumer confidence, further market volatility and decline, further economic disruption, further decline in real estate markets and, as a result, could have an adverse effect on the business, results of operations, financial condition and prospects of SIB.

#### ***SIB’s financial performance is affected by general economic conditions***

Risks arising from changes in credit quality and the recoverability of amounts due from borrowers and counterparties are inherent in banking and financial institution businesses. Adverse changes in global economic conditions, or arising from systemic risks in the financial systems, could affect the recovery and value of SIB’s assets and require an increase in SIB’s provisions. SIB uses different hedging strategies to minimise risk, including securities, collateral and insurance that are intended to reduce the credit risk level to be within SIB’s strategy and risk appetite. However, there can be no assurance that such measures will eliminate or reduce such risks and, consequently, SIB’s business, financial condition, operational results and prospects may be adversely affected.

#### ***Liquidity risks***

Liquidity risk is the risk that SIB may be unable to meet its payment obligations when they fall due under normal and stressed circumstances. Liquidity risks could arise from the inability of SIB to anticipate and provide for unforeseen decreases or changes in funding sources which could have adverse consequences on the ability of SIB to meet its obligations when they fall due.

Liquidity is essential to the business of SIB and the UAE financial markets have shown comparatively reduced levels of liquidity since the third quarter of 2008 (see “*Political, economic and related considerations*” above). A number of measures have been taken in an attempt to improve the liquidity levels in the UAE. The UAE Ministry of Finance and the Central Bank of the UAE (the **UAE Central Bank**) are in regular contact with UAE banks and have intervened to provide liquidity to the market, however, there is no guarantee that the situation will improve in the short-term.

A dislocated credit environment creates the risk that SIB will not be able to access funds on favourable terms. These and other factors could also lead creditors to form a negative view of SIB’s liquidity, which could result in less favourable credit ratings, higher funding costs and less

accessible funds. Furthermore, in circumstances where financial institutions generally have ongoing limitations on their access to other sources of funding such as wholesale market derived funding, SIB's access to funds and its cost of funding (profit paid or expected to be paid) may be adversely affected. All of these factors related to liquidity risk could have a material adverse effect on SIB's business, reputation, financial condition, results of operations or prospects and thereby affect its ability to perform its obligations under the Transaction Documents.

### ***Liability Mismatch Risks***

As at 31 December 2012, 73.97 per cent. of SIB's total deposits, including short-term profit-sharing investment accounts, carried a maturity of less than three months. There may therefore be a potential mismatch in the asset and liability profile of SIB. The existence of maturity profile mismatches may increase SIB's vulnerability to price competition as SIB may face increased liquidity risks to the extent that SIB becomes unable to offer an adequate rate of return to customers. This could have an adverse effect on the business, results of operations, financial condition and prospects of SIB.

### ***Credit risks***

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risks arising from adverse changes in the credit quality and recoverability of financings, advances and amounts due from counterparties are inherent in the business of SIB. Credit risks could arise from a deterioration in the credit quality of specific counterparties of SIB, from a general deterioration in local or global economic conditions or from systemic risks with the financial systems, all of which could affect the recoverability and value of the assets of SIB which would require an increase in the provisions for the impairment of its assets and other credit exposures.

As mentioned above under "*Political, economic and related considerations*", the UAE economy has been negatively impacted by the global economic downturn and, in particular, had been negatively impacted by the correction in the price of oil, which affected some of the UAE's key economic sectors including trade, tourism, real estate and commerce. As a result of these recent adverse market conditions, certain customers to which SIB directly extends credit and counterparties of SIB have experienced, and may continue to experience, decreased revenues, financial losses, insolvency, difficulty in obtaining access to financing and increased funding costs and some of these companies have been unable to meet their service obligations or other expenses as they become due, including amounts payable to SIB. Accordingly, SIB may experience a higher level of credit defaults (including non-performing financings and consequential increases in impairment allowances for doubtful financings and advances) in the immediate future, which could have an adverse effect on the business, results of operations, financial condition and prospects of SIB.

To manage credit risk, SIB maintains a credit risk strategy, monitoring credit exposures, limiting transactions with specific counterparties, monitoring concentrations of exposure across industry sectors, obtaining security where appropriate and continually assessing the creditworthiness of counterparties as part of their normal processes (for further detail, see "*Description of Sharjah Islamic Bank PJSC – Risk Management*"). However, there can be no assurance that such measures eliminate or reduce, or will continue to eliminate or reduce, credit risks which may adversely affect SIB's business, results of operations, financial condition and prospects.

### ***Operational and Compliance risks***

Operational risks and losses can result from fraud, error by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, lapses in any operational controls, the failure of internal systems, equipment and external systems (e.g., those of SIB's counterparties or vendors) and occurrence of natural disasters. Although SIB has implemented risk controls and loss

mitigation strategies and substantial resources are devoted to developing efficient procedures, it is not possible to eliminate any of the operational risks entirely, which could have an adverse effect on the business, results of operations, financial condition and prospects of SIB.

Notwithstanding anything in this operational risks risk factor, this risk factor should not be taken as implying that SIB will be unable to comply with its obligations as a company with securities admitted to the Official List or that SIB will be unable to comply with its obligations under the Certificates.

Compliance risks include the monitoring of and compliance with codes of conduct, fraud investigations and adherence to anti money laundering (**AML**) and know your customer (**KYC**) policies, as well as SIB's internal policies and procedures and other regulatory requirements. See further "*Description of Sharjah Islamic Bank PJSC - Risk Management*". Although SIB's policies are designed to mitigate these risks, it is not possible to eliminate compliance risks entirely, which could have an adverse effect on the business, results of operation, financial condition and prospects of SIB.

### **Concentration risk**

Concentrations in the financing and deposit portfolio of SIB subjects it to risks from default by its larger borrowers, from exposure to particular sectors of the UAE economy and from withdrawal of large deposits. The financing and receivables portfolio of SIB shows industry and borrower concentration.

SIB's 10 largest private sector borrowers represented 22.99 per cent. of SIB's total financings and receivables as at 31 December 2012. As at 31 December 2012, SIB's largest funded exposure to a private sector borrower was AED 314 million, which constitutes 2.79 per cent. of SIB's total financings and receivables (as at 31 December 2012) and 6.91 per cent. of its total regulatory capital (total regulatory capital being AED 4.542 billion as at 31 December 2012).

In terms of the industry concentration of SIB's total credit risk portfolio, as at 31 December 2012, construction and real estate combined accounted for 6.34 per cent. (compared to 7.12 per cent. as at 31 December 2011), trade and manufacturing accounted for 10.97 per cent. (compared to 9.66 per cent. as at 31 December 2011), the Government of Sharjah, other local governments and their respective dependencies accounted for 36.14 per cent. (compared to 35.04 per cent. as at 31 December 2011), personal finance accounted for 38.75 per cent. (compared to 38.97 per cent. as at 31 December 2011) and other sectors accounted for 7.80 per cent. (compared to 9.21 per cent. as at 31 December 2011).

As at 31 December 2012, SIB's wholesale banking customers represented 57 per cent. of its combined total deposits (compared to 55 per cent. as at 31 December 2011). Although SIB considers that it has adequate access to sources of funding, the withdrawal of a significant portion of these large deposits may have an adverse effect on the financial condition and results of operations of SIB as well as its ability to meet the UAE Central Bank target stable resources ratio of 100 per cent.

A downturn in the fortunes of any of SIB's depositors, or in the sectors in which they operate, could have an adverse effect on the business, results of operations, financial condition and prospects of SIB.

### **Limited Profitability**

SIB has conservative plans to only marginally increase the size of its financing portfolio by focusing only on short-term financing with a limited number of counterparties. Whilst this is a prudent approach that is consistent with SIB's cautious attitude to risk, the maintenance of a small financing portfolio may restrict SIB's potential to maximise profit, which could have an adverse effect on the business, results of operations, financial condition and prospects of SIB.

### **Market risks**

Market risk refers to the risk that SIB's income and/or value of a financial instrument will fluctuate because of changes in market rates such as profit rates, foreign exchange rates and market prices of equity. SIB is exposed to market risk through its diverse financial instruments including sukuk, equities, investment funds and foreign currencies. Although SIB has implemented market risk limits and regularly monitors its exposure, it is not possible to eliminate market risks entirely, and major fluctuations in profit rates, foreign exchange rates or market prices of equity could have an adverse effect on the business, results of operations, financial condition and prospects of SIB.

### **Legal Risks**

Legal risk is the risk of losses occurring due to legal or regulatory action that invalidates or otherwise precludes performance by SIB or any of its counterparties under the terms of its contractual agreements. Additionally, SIB may face certain legal risks from private actions brought against it. SIB aims to mitigate these risks through properly reviewed documentation and by seeking appropriate legal advice when necessary. However, generally, as a participant in the regulated financial services industry, it is likely that SIB may experience, from time to time, a level of litigation and regulatory scrutiny related to its businesses and operations which may, if adversely determined, have an impact on SIB's business, financial condition, results of operations or prospects and thereby affect SIB's ability to meet its obligations under the Transaction Documents.

### **Principal Shareholders and Governmental Interests**

As at the date of this Base Prospectus, the Government of Sharjah holds 31.3 per cent., and Kuwait Finance House 20 per cent. of the share capital of SIB. By virtue of such shareholding in SIB, the Government of Sharjah has the ability to influence the business of SIB through its ability to control actions that require shareholder approval. If circumstances were to arise where the interests of the Government of Sharjah conflict with the interests of the Certificateholders, the latter could be disadvantaged. The Government of Sharjah could, for example, cause SIB to pursue transactions, make dividend payments or other distributions or payments to shareholders or undertake other actions to implement governmental policy rather than to foster the commercial interests of SIB.

The Government of Sharjah may, whether directly or through government-owned entities, at any time and for any reason, dispose of its investments in, withdraw its deposits from, cease to do business with or otherwise cease to support SIB. The reduction or elimination of governmental support could have a material adverse effect on SIB's business, results of operations, financial condition and prospects.

The Government of Sharjah does not explicitly or implicitly guarantee the financial obligations of SIB (including in respect of the Certificates to be issued) nor does it, like any other shareholder, have any legal obligation to provide any support or additional funding for SIB's future operations.

### **Competition**

SIB faces competition in all of its business areas from domestic and foreign banks operating in the UAE. SIB faces competition from both Islamic banks and conventional banks. As at 31 July 2012, there were 51 different banks (comprised of 23 locally incorporated banks and 28 foreign banks) licensed to operate inside the UAE (excluding the Dubai International Financial Centre). There are also an increasing number of institutions offering Islamic financial products and services within the UAE. As at 31 July 2012, there were eight Islamic banks, in addition to a number of other financial institutions, offering Islamic products and solutions. Other financial institutions may consider offering *Shari'a* compliant products.

Generally, the banking market in the UAE has been a relatively protected market with high regulatory and other barriers to entry for foreign financial institutions. However, should some of

these barriers be removed or eased in the future, either voluntarily or as a result of the UAE's obligations to the World Trade Organisation (the **WTO**), the GCC or any other similar entities, it is likely to lead to a more competitive environment for SIB and other domestic financial institutions. Such increase in competition could have a material adverse effect on the businesses, results of operations, financial condition and prospects of SIB (see also "*Description of Sharjah Islamic Bank PJSC - SIB's Competition*" below).

### ***Impact of Regulatory Changes***

SIB is subject to the laws, regulations, administrative actions and policies in the UAE. These regulations may limit SIB's activities and changes in supervision and regulation could materially adversely affect SIB's business, the products or services offered, the value of its assets, and its financial condition. Future changes in regulatory, fiscal, taxation or other policies which have a material adverse effect on the businesses, results of operations, financial condition and prospects of SIB cannot be predicted and are beyond the control of SIB.

### ***Foreign exchange movements may adversely affect the profitability of SIB***

SIB maintains its accounts and reports its results in UAE Dirham. The UAE dirham has been pegged at a fixed exchange rate to the U.S. dollar since 22 November 1980. However, there can be no assurance that the UAE Government will not re-peg or de-peg the UAE Dirham in the future and expose SIB to the potential impact of any alteration to or abolition of this foreign exchange peg which could adversely affect SIB's business, financial condition, results of operations or prospects.

### ***All material business in Sharjah and the UAE***

Investors should note that SIB is incorporated in, and has all of its material operations and assets located in, the UAE. SIB has no material operations or assets outside of the UAE. Accordingly, SIB may have insufficient assets located outside the UAE to satisfy in whole or in part any judgment obtained from an English court relating to amounts owing in connection with the Certificates. If investors were to seek enforcement of an English judgment in the UAE or to bring proceedings in relation to the Certificates in the UAE, then certain limitations would apply (see "*Risk factors relating to enforcement – Enforcement risk*" and "*Risk factors relating to the Assets – Transfer of the Assets*").

Additionally, as all of SIB's material operations and assets are located in the UAE, its business may be affected by the financial, political and general economic conditions prevailing from time to time in the UAE and/or the Middle East. Investors are advised to make, and will be deemed by the Dealers, the Trustee and SIB to have made, their own investigations in relation to such factors before making any investment decisions in relation to the Certificates. The UAE and Middle East markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

### ***Importance of key personnel***

SIB's ability to maintain and grow its businesses will depend, in part, on its ability to continue to recruit and retain qualified and experienced banking and management personnel. SIB may face challenges in recruiting and retaining qualified personnel to manage its respective businesses from time to time and, if it is to continue to grow, will need to continue to increase its employee numbers.

While SIB currently meets (and exceeds) the UAE Federal Government's "Emiratization" requirements (in particular, see "*Management of Sharjah Islamic Bank PJSC –Emiratization*") and believes that it has effective staff recruitment, training and incentive programmes in place (see

“*Description of Sharjah Islamic Bank PJSC – Competitive Strengths*”), if it were unable to retain key members of its senior management and/or remove under-performing staff and/or hire new qualified personnel in a timely manner, this could have a material adverse effect on its business, results of operations, financial condition and prospects.

## **Risks related to the Certificates generally**

### ***No third-party guarantees***

Investors should be aware that no guarantee is given in relation to the Certificates by the Government of Sharjah (see also “*Principal Shareholders and Governmental Interests*” above) or any other third parties.

## **Risk factors relating to the Certificates**

### ***Absence of secondary market/limited liquidity***

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

### ***The Certificates are limited recourse obligations***

The Certificates to be issued under the Programme are not debt obligations of the Trustee. Instead, the Certificates represent an undivided ownership interest solely in the relevant Trust Assets. Recourse to the Trustee in respect of each Series is limited to the Trust Assets of that Series and proceeds of such Trust Assets are the sole source of payments on the relevant Certificates. Upon the occurrence of a Dissolution Event, the sole rights of each of the Delegate and, through the Delegate, the Certificateholders of the relevant Series will be against SIB to perform its obligations under the Transaction Documents to which it is a party. Certificateholders will have no recourse to any assets of the Trustee or SIB in respect of any shortfall in the expected amounts due under the relevant Trust Assets. SIB is obliged to make certain payments under the Transaction Documents to which it is a party directly to the Trustee, and the Delegate will have direct recourse against SIB to recover such payments due to the Trustee pursuant to the Transaction Documents to which it is a party. In the absence of default by the Delegate, investors have no direct recourse to SIB and there is no assurance that the net proceeds of the realisation of any enforcement action with respect to the Trust Assets (which will be by way of enforcing SIB’s and the Trustee’s respective obligations under the Transaction Documents to which they are a party) will be sufficient to make all payments due in respect of the relevant Certificates. After enforcing or realising the rights in respect of the Trust Assets of a Series and distributing the net proceeds of such Trust Assets in accordance with Condition 4.2 (*Application of Proceeds from the Trust Assets*), the obligations of the Trustee in respect of the Certificates of the relevant Series shall be satisfied and neither the Delegate nor any Certificateholder may take any further steps against the Trustee to recover any further sums in respect of such Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets

except pursuant to the Transaction Documents (which includes the Purchase Undertaking). The sole right of the Trustee, the Delegate and the Certificateholders against SIB shall be to enforce the obligation of SIB to perform its obligations under the Transaction Documents to which it is a party.

***The Trust may be subject to early dissolution and, in consequence, the Certificates may be redeemed early***

In the event that the amount payable on the Certificates of any Series is required to be increased to include additional amounts in certain circumstances and/or SIB is required to pay additional amounts pursuant to certain Transaction Documents, in each case as a result of certain changes affecting taxation in the Cayman Islands (in the case of the Trustee) or the UAE (in the case of SIB), or in each case any political subdivision or any authority thereof or therein having power to tax, the Trustee may redeem all but not some only of the Certificates upon giving notice in accordance with the Terms and Conditions of the relevant Certificates.

If so provided in the applicable Final Terms, a Series may be redeemed early at the option of the Trustee. Any such early redemption feature of any Certificate is likely to limit its market value. During any period when the Trustee may elect to redeem Certificates, the market value of those Certificates generally will not rise substantially above the dissolution amount payable. This also may be true prior to any redemption period. The Trustee may be expected to redeem Certificates when SIB's cost of borrowing is lower than the profit rate on the Certificates. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective profit rate as high as the profit rate on the Certificates being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider re-investment risk in light of other investments available at that time.

**Risk factors relating to the Assets**

***Ownership of the Assets***

In order to comply with the requirements of *Shari'a*, an ownership interest in the Assets comprised within the relevant Portfolio will pass to the Trustee under the relevant Purchase Agreement. The Trustee will declare a trust in respect of such Portfolio and the other Trust Assets in favour of the Certificateholders of the relevant Series pursuant to the relevant Trust Deed. Accordingly, Certificateholders will, through the ownership interest of the Trustee, have an ownership interest in the relevant Portfolio unless the transfer of the Portfolio is prohibited by, or ineffective under, any applicable law (see "*Transfer of the Assets*" below).

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Assets comprised within any Portfolio. Such Assets will be selected by SIB and the Certificateholders, the Trustee and the Delegate will have no ability to influence such selection. Only limited representations will be obtained from SIB in respect of the Assets of any Series. In particular, the precise terms of the Assets will not be known (including whether there are any restrictions on transfer or any further obligations required to be performed by SIB to give effect to the transfer of the Assets). No steps will be taken to perfect the transfer of the ownership interest (including registration) in the Assets with any relevant regulatory authority in the UAE or otherwise give notice to any lessee or obligor in respect thereof.

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

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

No investigation has been or will be made as to whether any Assets may be transferred as a matter of the law governing the contracts (if any) underlying such Assets, the law of the jurisdiction where such assets are located or any other relevant law. No investigation will be made to determine if the relevant Purchase Agreement will have the effect of transferring the Assets of the relevant Series of Certificates.

Nevertheless, as indicated earlier, although, in order to comply with the requirements of *Shari'a*, an ownership interest in the Assets comprised within the relevant Portfolio will pass to the Trustee under the relevant Purchase Agreement, the Certificateholders will not have any rights of enforcement as against the Assets and their rights are limited to enforcement against SIB of its obligation to purchase the Assets pursuant to the terms of the Purchase Undertaking. Accordingly, any such restriction on the ability of SIB to perfect the sale of the Assets to the Trustee is likely to be of limited consequence to the rights of the Certificateholders.

By way of further assurance, SIB has covenanted in the Purchase Undertaking that to the extent that any sale and purchase or transfer and assignment of any of the Assets is not valid or effective in any jurisdiction for any reason, it will make restitution in respect of those Assets, will fully accept all or any ownership interest the Trustee may have in the relevant Assets and, if that ownership interest is disputed or challenged, will fully indemnify the Trustee for the purpose of redemption in full or in part, as the case may be, of the relevant Series of Certificates and, accordingly, the amount payable under such indemnity will equal the relevant Exercise Price (see "*Description of the Principal Transaction Documents – Purchase Undertaking*").

SIB has agreed under the terms of the Purchase Undertaking to submit to the exclusive jurisdiction of the Dubai International Financial Centre Courts (the **DIFC Courts**) in respect of any dispute, claim, difference or controversy arising out of or in connection with the Purchase Undertaking, subject to the right of the Trustee (or the Delegate on behalf of the Certificateholders) to elect to bring proceedings in any other court or courts of competent jurisdiction. Dubai Law No. 16 of 2011 on Amending Some Provisions of Law No. 12 of 2004 Concerning the Dubai International Financial Centre Courts (**Law No. 16 of 2011**) came into force in Dubai on 31 October 2011 and extended the jurisdiction of the DIFC Courts to include all civil and commercial disputes where the parties to the relevant dispute have expressly agreed to submit to the jurisdiction of the DIFC Courts, even where such parties are unconnected to the Dubai International Financial Centre (the **DIFC**). None of SIB, the Trustee or the Delegate are connected to the DIFC.

If, in respect of any Series, SIB fails to purchase the relevant Assets in accordance with Clause 3.3 of the Purchase Undertaking, the Delegate (on behalf of the relevant Certificateholders) may, subject to the matters set out in Condition 15 (*Enforcement and Exercise of Rights*) and the terms of the Master Trust Deed, seek to enforce, *inter alia*, the provisions of the Purchase Undertaking against SIB by commencing proceedings in the DIFC Courts. The DIFC Courts should respect the choice of English law as the governing law of the Purchase Undertaking.

Investors should note that there is a risk that the DIFC Courts may rule that the DIFC Courts are not the appropriate forum to resolve any dispute relating to SIB's obligation under Clause 3.3 of the Purchase Undertaking to purchase the relevant real estate based Assets situated outside the DIFC, and that any dispute relating to such assets should be resolved by the courts where those assets are located. Whether the DIFC Courts would refuse to accept jurisdiction on this basis is unclear under Sharjah (or Dubai) law and, as far as each of SIB and the Trustee are aware, no proceedings have yet been taken in the DIFC Courts to determine if they would take this approach.

However, any dispute relating to the failure by SIB to purchase the relevant Assets is likely to arise in the context of a challenge by SIB (or by any administrator, liquidator or receiver of SIB) of the validity of the Purchase Undertaking on the basis that the Trustee does not hold a valid interest in the relevant real estate based Assets purported to be purchased under Clause 3.3 of the Purchase Undertaking. This argument is likely to be based on the failure to register with the Sharjah

Directorate of Town Planning and Survey or the Dubai Land Department (or any equivalent department or authority which is responsible for such registration at the applicable time) the initial sale and transfer of those Assets under the relevant Supplemental Purchase Contract. As described above, if SIB (or any administrator, liquidator or receiver of SIB) disputes or challenges the rights, benefits and entitlements of the Trustee to any of the Assets in this way, SIB has agreed in Clause 2.2(c) of the Purchase Undertaking to indemnify the Trustee for the purpose of redemption in full (or in part, as the case may be) of the relevant Series in an amount equal to the relevant Exercise Price, and the Delegate (subject as set out above) would be able to bring proceedings in the DIFC Courts to enforce this obligation. In making a ruling with respect to SIB's obligation to indemnify the Trustee, the DIFC Courts should apply English law to that obligation.

In applying English law, the DIFC Courts shall have the discretion to sever SIB's obligation to purchase the relevant real estate based Assets from the remaining provisions of the Purchase Undertaking, including the indemnity provision set out in Clause 2.2(c) and treat that indemnity provision as an independent and separately enforceable obligation of SIB and, therefore, are (subject to any valid defences raised by SIB) likely to award a judgment in favour of the Delegate (on behalf of the relevant Certificateholders) in accordance with the terms of that indemnity.

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

Investors should note however that, as at the date of this Base Prospectus, Law No. 16 of 2011 remains relatively new and untested and, accordingly, (i) there is no certainty as to how the DIFC Courts intend to exercise their jurisdiction under the new law should any party dispute the right of the DIFC Courts to hear a particular dispute where any party is unconnected to the DIFC and (ii) whilst the courts of Dubai (the **Dubai Courts**) have enforced final judgments, decisions, orders and arbitral awards made and, as applicable, ratified by the DIFC Courts in Dubai without reconsidering the merits of such judgments, decisions, orders and ratified arbitral awards, how the Dubai Courts will interpret Law No. 16 of 2011 is uncertain and this is reinforced by the lack of a system of binding judicial precedent in the UAE.

There also remains a doubt as to whether a final judgment, decision, order or arbitral award made and, as applicable, ratified by the DIFC Courts would be enforceable directly in the domestic courts of the emirates of the UAE outside of Dubai (such as Sharjah) or whether enforcement of such a judgment, decision, order or arbitral award would be interpreted by the domestic courts of the emirate in question as being subject to the "deputisation" or "referral" procedures under Article 221 of UAE Federal Law No. 11 of 1992, as amended (the **Civil Procedure Law**) (and therefore be refused on this basis).

Article 7(2) of Law No. 16 of 2011 provides that any final and enforceable judgment, decision and order issued by the DIFC Courts and any arbitral award ratified by the DIFC Courts shall, upon application by the relevant party to the "competent authority" and being presented in the form and manner specified under Article 7(2), be executed by the "competent authority" in accordance with procedures and principles adopted thereof in this respect and any agreements or memorandums of understanding concluded between the DIFC Courts and the "competent authority". Article 7(2) has been interpreted by some commentators as also applying to any "competent authority" located in any emirate of the UAE such that final and enforceable judgments, decisions and orders of the DIFC Courts and arbitral awards ratified by the DIFC Courts may be enforced directly in other emirates and without the need for referring the matter through the execution judge in Dubai to the execution judge in the relevant emirate pursuant to Article 221 of the Civil Procedure Law. However, since Law No. 16 of 2011 is a Dubai law and not a Federal law (such that it is not clear how Law No.16 of 2011 could operate to impose obligations on the courts of the UAE other than the Dubai courts, such as the courts of Sharjah (the **Sharjah Courts**)) and there is as yet no established

practice for enforcing such judgments, decisions, orders and ratified arbitral awards outside of Dubai, there is some uncertainty as to how such enforcement may be carried out in practice.

The prudent approach may be to enforce a final and enforceable judgment, order or award of the DIFC Courts in the Dubai Courts for referral by the execution judge of the Dubai Court to the execution judge in the courts of the relevant emirate (Sharjah) pursuant to the “deputisation” or “referral” procedures under Article 221 of the Civil Procedure Law.

In the event that a judgment, order or award of the DIFC Courts is enforced by the execution judge in the Dubai Courts and enforcement is then sought in the courts of another emirate pursuant to the “deputisation” or “referral” procedures under Article 221 of the Law of Civil Procedure, there is a risk that the execution judge in the courts of the relevant emirate could refuse enforcement if he finds that there are legal reasons precluding the execution or if it is impossible for him to execute for any other reason. Investors in the Certificates should also be aware that it is possible to raise procedural objections before an execution judge to whom the “deputisation” or “referral” is made and decisions of the execution judge shall be appealable in the circumstances set out in Article 222 of the Civil Procedure Law.

## **Risk factors relating to taxation**

### ***Taxation risks on payments***

Payments made by SIB to the Trustee under the Transaction Documents to which they are a party and payments by the Trustee in respect of the Certificates could become subject to taxation. The Service Agency Agreement requires the Service Agent, each of the Purchase Undertaking and the Sale Undertaking requires SIB, and the Master Trust Deed requires SIB to pay additional amounts in the event that any withholding or deduction is required by applicable law to be made in respect of payments made by it to the Trustee which are intended to fund Periodic Distribution Amounts and Dissolution Amounts. Condition 11 (*Taxation*) provides that the Trustee is required to pay additional amounts in respect of any such withholding or deduction imposed by or on behalf of any Relevant Jurisdiction (as defined in the Conditions) in certain circumstances. In the event that the Trustee fails to pay any such additional amounts in respect of any such withholding or deduction on payments due in respect of the Certificates to Certificateholders, SIB has unconditionally and irrevocably undertaken (irrespective of the payment of any fee), as a continuing obligation, to pay to the Trustee (for the benefit of the Certificateholders) an amount equal to the liabilities of the Trustee in respect of any and all additional amounts required to be paid in respect of the Certificates pursuant to Condition 11 (*Taxation*) in respect of any withholding or deduction in respect of any tax as set out in that Condition.

### ***EU Savings Directive***

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

The European Commission has proposed certain amendments to the Savings Directive which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment,

neither the Trustee nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to the Certificates as a result of the imposition of such withholding tax. The Trustee is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive.

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

In order to receive payments free of U.S. withholding tax under Sections 1471 through 1474 of the US Internal Revenue Code (**FATCA**), the Trustee and financial institutions through which payments on the Certificates are made may be required to withhold at a rate of up to 30 per cent. on all, or a portion of, payments in respect of the Certificates made after 31 December 2016. If the parties to the transaction are not in compliance with FATCA, payments on the Certificates may be subject to FATCA withholding.

The Trustee may enter into an agreement with the U.S. Internal Revenue Service (**IRS**) to provide certain information about investors. Under such an agreement, withholding may be triggered if: (a) an investor does not provide information sufficient for the relevant party to determine whether the investor is a U.S. person or should otherwise be treated as holding a “United States Account” of the Trustee, (b) an investor does not consent, where necessary, to have its information disclosed to the IRS or (c) any investor or person through which payment on the Certificates is made is not able to receive payments free of withholding under FATCA.

If an amount in respect of FATCA were to be deducted or withheld from interest, principal or other payments on or with respect to the Certificates, the Trustee would have no obligation to pay additional amounts or otherwise indemnify a holder for any such withholding or deduction by the Trustee, a Paying Agent or any other party as a result of the deduction or withholding of such amount. As a result, if FATCA withholding is imposed on these payments, investors may receive less interest or principal than expected.

An investor that is a “foreign financial institution” (as defined under the FATCA rules) that is withheld upon generally will be able to obtain a refund only to the extent an applicable income tax treaty with the United States entitles the investor to a reduced rate of tax on the payment that was subject to withholding under FATCA, provided the required information is furnished in a timely manner to the IRS.

The United States is in the process of negotiating intergovernmental agreements to implement FATCA (**IGAs**) with a number of jurisdictions. Different rules from those described above may apply if the Trustee or an investor is resident in a jurisdiction that has entered into an IGA to implement FATCA.

Investors should consult their own advisers about the application of FATCA, in particular if they may be classified as financial institutions under the FATCA rules.

### **Risk factors relating to enforcement**

#### ***UAE Bankruptcy Law***

In the event of SIB’s insolvency, UAE bankruptcy law may adversely affect SIB’s ability to perform its obligations under the Transaction Documents to which it is a party and, consequently, the Trustee’s ability to perform its obligations in respect of the Certificates and to make payments to Certificateholders. There is little precedent to predict how claims by or on behalf of Certificateholders and/or the Delegate against SIB would be resolved and therefore there can be no assurance that Certificateholders will receive payment of their claims in full or at all in these circumstances.

### ***Enforcement risk***

Ultimately, the payments under the Certificates are dependent upon SIB making payments to the Trustee in the manner contemplated under the Transaction Documents. If SIB fails to do so, it may be necessary to bring an action against it to enforce its obligations and/or to claim damages, as appropriate, which may be costly and time consuming.

SIB has irrevocably agreed that each of the Master Trust Deed, each Supplemental Trust Deed, the Agency Agreement, the Service Agency Agreement and the Purchase Undertaking will be governed by English law and may be referred to arbitration in London under the LCIA Arbitration Rules (in respect of the Purchase Undertaking, see “– *Transfer of the Assets*” above). The 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the **New York Convention**) entered into force in the UAE on 19 November, 2006. Any arbitration award rendered in London should therefore be enforceable in Sharjah in accordance with the terms of the New York Convention. Under the New York Convention, the UAE has an obligation to recognise and enforce foreign arbitration awards, unless the party opposing enforcement can prove one of the grounds under Article V of the New York Convention to refuse enforcement, or the Sharjah courts find that the subject matter of the dispute is not capable of settlement by arbitration or enforcement would be contrary to the public policy of the UAE. There have been limited instances where the UAE courts, most notably the Fujairah Court of First Instance and the Dubai Court of Cassation, have ratified or ordered the recognition and enforcement of foreign arbitration awards under the New York Convention. It should be noted that only the Dubai Court of Cassation decision was a final decision. The uncertainty regarding the interpretation and application of the New York Convention provisions by the courts of the UAE is further reinforced by the lack of a system of binding judicial precedent in the UAE and the independent existence of different emirates within the UAE, some with their own court systems, whose rulings may have no more than persuasive force within other emirates. There is therefore no guarantee that the Sharjah Courts will take the same approach in similar proceedings in the future.

Under the relevant Transaction Documents, any dispute may also be referred by the Trustee to the courts in England who shall have exclusive jurisdiction to settle any dispute arising from such Transaction Documents. Where an English judgment has been obtained, there is no assurance that SIB has or would at the relevant time have assets in the United Kingdom against which such a judgment could be enforced. SIB is a UAE company and is incorporated in and has all of its material operations and assets located in the UAE. Under current Sharjah law, the courts are unlikely to enforce an English judgment without re-examining the merits of the claim and may not observe the choice by the parties of English law as the governing law of the Transaction Documents or the Certificates. In addition, even if English law is accepted as the governing law, this will only be applied to the extent that it is compatible with the laws of Sharjah, the UAE and public policy. This may mean that the Sharjah courts may seek to interpret English law governed documents as if governed by UAE law and there can therefore be no certainty that in those circumstances the Sharjah courts would give effect to such documents in the same manner as the parties may intend. In addition, in the event that a dispute is referred, for whatever reason, to the courts in Sharjah, the related such document(s) may not be enforceable or admissible in evidence before such courts unless translated into Arabic. In the event of a conflict between the English text and the Arabic text, the courts in Sharjah would rely on the Arabic version.

As the UAE judicial system is based on a civil code, judicial precedents in the UAE have no binding effect on subsequent decisions. In addition, there is no formal system of reporting court decisions in the UAE. These factors create greater judicial uncertainty.

### ***Waiver of sovereign immunity***

SIB has in the Transaction Documents waived its rights, if any, to sovereign immunity. However, there can be no assurance as to whether such waivers of immunity from execution or attachment

or other legal process by SIB under the Transaction Documents to which it is a party are valid and binding under the laws of Sharjah and the UAE and applicable in Sharjah and the UAE.

### ***Change of law***

The structure of each issue of Certificates under the Programme is based on English law, Cayman Islands law, the laws of Sharjah and, to the extent applicable in Sharjah, the federal laws of the UAE, the laws of the DIFC, and administrative practices in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible change to, or interpretation of, English, Cayman Islands or UAE, Sharjah or DIFC law or administrative practices in such jurisdiction after the date of this Base Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Trustee to make payments under the Certificates or of SIB, to comply with its obligations under the Transaction Documents to which it is a party.

### ***Claims for specific enforcement***

In the event that SIB fails to perform its obligations under any Transaction Document to which it is a party, the potential remedies available to the Trustee and the Delegate include obtaining an order for specific enforcement of the relevant obligations or a claim for damages. There is no assurance that any court would order specific enforcement of a contractual obligation, as this is generally a matter for the discretion of the relevant court.

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

### ***Additional risk factors***

#### ***Credit ratings may not reflect all risks***

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

#### ***Emerging markets***

Investors in emerging markets should be aware that these markets are subject to greater risks than more developed markets, including, in some cases, significant legal, economic and political risks. Investors should note that emerging markets are subject to rapid change and that the information set forth in this Base Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect confidence in markets of all emerging market countries as investors move their money to more developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Sharjah and the UAE and adversely affect those economies. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Companies located in countries in the emerging markets may be particularly susceptible to disruptions in the capital markets and the reduced availability of credit or the increased cost of debt, which could result in them experiencing financial difficulty. In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for

example, a decrease in credit ratings or state or central bank intervention) could affect the price or availability of funding for entities within any of these markets.

Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

### ***Consents to variation of Transaction Documents and other matters***

The Conditions of the Certificates contain provisions for calling meetings of Certificateholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Certificateholders including Certificateholders who did not attend and vote at the relevant meeting and Certificateholders who voted in a manner contrary to the majority.

The Master Trust Deed contains provisions permitting the Delegate from time to time and at any time without any consent or sanction of the Certificateholders to make any modification to the Master Trust Deed if, in the opinion of the Delegate, such modification (a) is of a formal, minor or technical nature, or (b) is made to correct a manifest error, or (c) is not materially prejudicial to the interests of the relevant Certificateholders and is other than in respect of a Reserved Matter (as defined in the Master Trust Deed). Unless the Delegate otherwise agrees, any such modification shall as soon as practicable thereafter be notified to the relevant Certificateholders and shall in any event be binding upon the relevant Certificateholders.

### ***Reliance on Euroclear and Clearstream, Luxembourg procedures***

The Certificates of each Series will be represented on issue by a Global Certificate that will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in each Global Certificate, investors will not be entitled to receive Certificates in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the ownership interests in Global Certificates. While the Certificates of any Series are represented by a Global Certificate, investors will be able to trade their ownership interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Certificates of any Series are represented by a Global Certificate, the Trustee will discharge its payment obligations under the Certificates by making payments through the relevant clearing systems. A holder of an ownership interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the relevant Certificates. The Trustee has no responsibility or liability for the records relating to, or payments made in respect of, ownership interests in any Global Certificate.

Holders of ownership interests in a Global Certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

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

In relation to any issue of Certificates which have a denomination consisting of the minimum Specified Denomination (as defined in the Conditions) plus a higher integral multiple of another smaller amount, it is possible that the Certificates may be traded in amounts in excess of such minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a Certificateholder who, as a result of trading such amounts, holds a face amount of less than the minimum Specified Denomination would need to purchase an additional amount of Certificates such that it holds an amount equal to at least the minimum Specified Denomination to be able to trade such Certificates. Certificateholders should be aware

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

If a Certificateholder holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time such Certificateholder may not receive a definitive Certificate in respect of such holding (should definitive Certificates be printed) and would need to purchase a face amount of Certificates such that its holding amounts to at least a Specified Denomination in order to be eligible to receive a definitive Certificate.

If definitive Certificates are issued, holders should be aware that definitive Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

### ***Exchange rate risks and exchange controls***

The Trustee will make all payments on the Certificates. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls which could adversely affect an applicable exchange rate. The Trustee does not have any control over the factors that generally affect these risks, such as economic, financial and political events and the supply and demand for applicable currencies. In recent years, exchange rates between certain currencies have been volatile and volatility between such currencies or with other currencies may be expected in the future. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Certificates, (2) the Investor's Currency equivalent value of the principal payable on the Certificates and (3) the Investor's Currency equivalent market value of the Certificates.

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

### ***Shari'a rules***

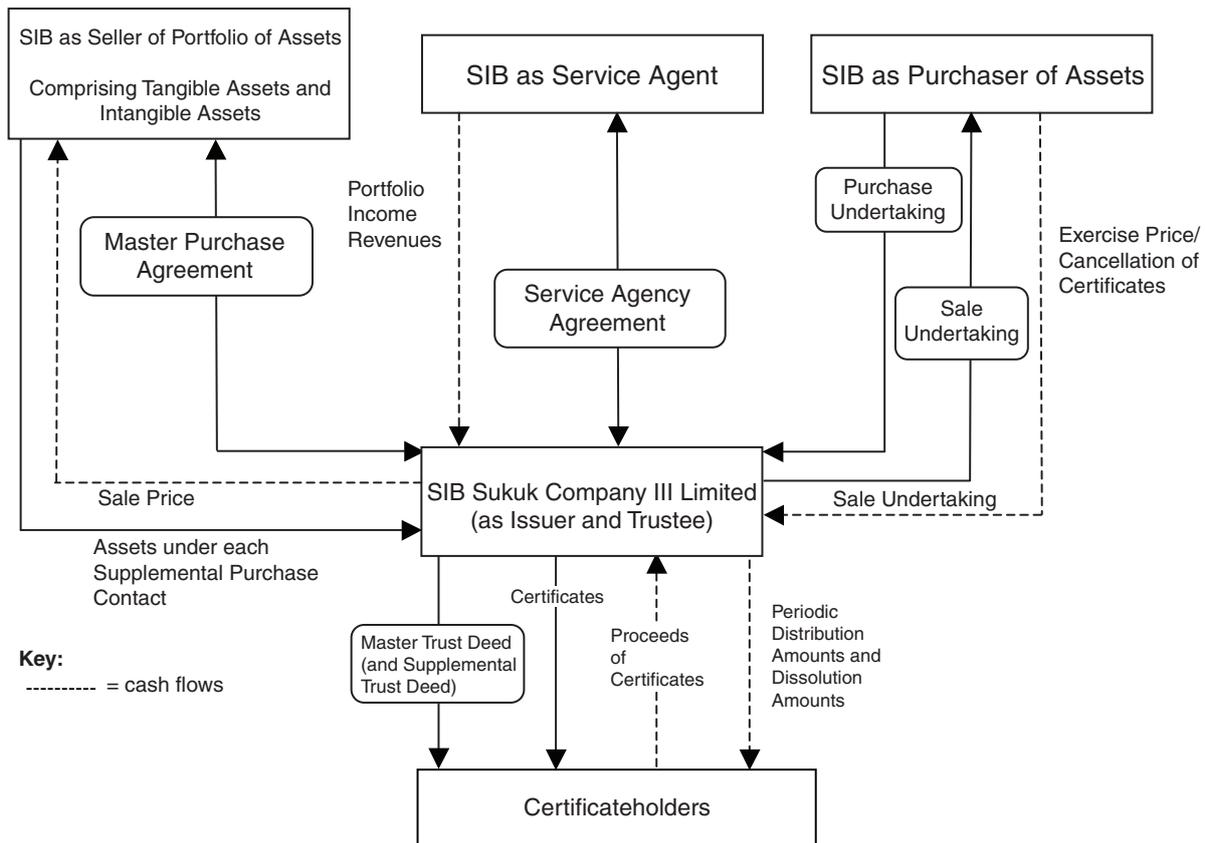
Dar Al Sharia LLC, SIB's *Shari'a* Committee, HSBC's Central *Shari'a* Committee and the *Shari'a* Supervisory Committee of Standard Chartered Bank have reviewed the Transaction Documents. However, there can be no assurance that the Transaction Documents or the issue and trading of the Certificates will be deemed to be *Shari'a* compliant by any *Shari'a* board or *Shari'a* scholars. None of the Trustee, SIB or the Dealers makes any representation as to the *Shari'a* compliance of the Certificates and potential investors are reminded that, as with any *Shari'a* views, differences in opinion are possible. Potential investors should obtain their own independent *Shari'a* advice as to the compliance of the Transaction Documents and the issue and trading of the Certificates with *Shari'a* principles.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties would, if in dispute, either be the subject of arbitration (or, in the case of the Purchase Undertaking the Sale Undertaking and the Service Agency Agreement, DIFC court proceedings) under English law or court proceedings under the laws of (i) Sharjah and, to the extent applicable in Sharjah, the federal laws of the UAE or (ii) England and Wales. In such circumstances, the arbitrator or, as the case may be, judge may apply the relevant law of the Transaction Document rather than core *Shari'a* principles in determining the obligation of the parties.

## STRUCTURE DIAGRAM AND CASHFLOWS

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

### Structure Diagram



### Payments by the Certificateholders and the Trustee

On the Issue Date of each Series of Certificates, the Trustee will use the proceeds for the relevant Series to purchase from SIB a portfolio (the **Initial Portfolio**) of: (a) real estate assets (**Real Estate Ijara Assets**) (including the related real estate *ijara* contracts and all rights thereunder; provided, however, that such real estate asset is in existence on the date on which it purchases the relevant Initial Portfolio); (b) non-real estate Ijara assets (each such asset, a **Non-Real Estate Ijara Asset**) (including the related non-real estate *ijara* contracts and all rights thereunder; provided, however, that such non-real estate asset is in existence on the date on which it enters the relevant Initial Portfolio); (c) *ijara mousoofah fizza* (forward *ijara*) real estate and non-real estate assets (including any rights under such forward lease agreements) (each a **Forward Lease Asset**) in respect of which the related real estate and non-real estate asset has been delivered to (or to the order of) the underlying lessee (together with the Real Estate Ijara Assets and Non-Real Estate Ijara Assets, each an **Ijara Asset**); (d) any asset, other than an Ijara Asset, which is an income generating asset (including, without limitation, any *sukuk* or trust certificates) that has associated with it underlying tangible assets and which is originated, held or owned by SIB in accordance with the *Shari'a* principles laid down by SIB's Fatwa & Shari'a Supervisory Board (including any agreements or documents relating to such asset) (each such asset, an **Other Tangible Asset** and,

together with the Ijara Assets and any *ijara mousoofah fizzimmah* (forward *ijara*) real estate and non-real estate assets in respect of which the related asset has been delivered, each a **Tangible Asset**); and (e) *murabaha* receivables under a *murabaha* (sale of commodities or goods on a cost plus basis) contract and Forward Lease Assets. In respect of which the related asset has yet to be delivered (each such asset, an **Intangible Asset** and, together with the Tangible Assets, each an **Asset** or an **Income Generating Asset**).

The Assets, together with any *Shari'a* Compliant Investments and all amounts credited to the Principal Collection Account, which comprise the portfolio from time to time are together referred to in this Base Prospectus as the **Portfolio**. The Service Agent will be appointed as service agent to service each Portfolio under the terms of the Service Agency Agreement.

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

Prior to each Periodic Distribution Date, the Service Agent will pay to the Trustee (by way of a payment into the relevant Transaction Account) an amount reflecting returns generated (other than returns in the nature of sale, capital or principal payments) by the relevant Portfolio (**Portfolio Income Revenues**) during the relevant Distribution Period, which is intended to be sufficient to fund the Periodic Distribution Amounts payable by the Trustee under the relevant Series and shall be applied by the Trustee for that purpose.

In the event that the Portfolio Income Revenues to be paid by the Service Agent into the relevant Transaction Account on any Distribution Determination Date are greater than the Required Amount (as defined below) (having first repaid: (a) any Liquidity Facility, and/or (b) any Service Agency Liability Amounts (as defined below) for the relevant Distribution Period) for the relevant Series on the immediately following Periodic Distribution Date, the amount of any excess shall be retained by the Service Agent as a reserve and credited to a separate book-entry ledger account (in respect of each Series, the **Income Reserve Collection Account**) maintained by the Service Agent.

If there is a shortfall on any Distribution Determination Date (after transfer of the Portfolio Income Revenues into the relevant Transaction Account as described above) between: (a) the amounts standing to the credit of the relevant Transaction Account, and (b) an amount (the **Required Amount**) equal to the aggregate of the Periodic Distribution Amounts and any other amounts payable by the Trustee in respect of the relevant Certificates on the immediately following Periodic Distribution Date (a **Shortfall**), the Service Agent shall first apply the amounts standing to the credit of the relevant Income Reserve Collection Account (if any) towards such Shortfall by transferring into the relevant Transaction Account from such Income Reserve Collection Account on that Distribution Determination Date an amount equal to the Shortfall (or such lesser amount as is then standing to the credit of such Income Reserve Collection Account). If, having applied such amounts standing to the credit of the relevant Reserve Collection Account (if any) and after payment to the relevant Transaction Account of all other amounts payable pursuant to any other Transaction Document, any part of the Shortfall still remains, the Service Agent may either:

- (a) provide *Shari'a* compliant funding to the Trustee itself; or
- (b) procure *Shari'a* compliant funding from a third party to be paid to the Trustee,

in each case in the amount required to ensure that there is no Shortfall and on terms that such funding is repayable from Portfolio Income Revenues in the future or on the date on which the Certificates of the relevant Series are redeemed in full (each a **Liquidity Facility**).

### ***Dissolution Payments***

On each Scheduled Dissolution Date, the Trustee will have the right under the Purchase Undertaking to require SIB to purchase all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the relevant Portfolio. The exercise price payable by SIB is intended to fund the Final Dissolution Amount payable by the Trustee under the relevant Certificates.

The Trust in relation to any Series may be dissolved prior to the relevant Scheduled Dissolution Date for the following reasons: (a) redemption following a Dissolution Event; (b) an early redemption for tax reasons; (c) if so specified in the applicable Final Terms, at the option of the Trustee (following the receipt of an Exercise Notice from SIB in accordance with the terms of the Sale Undertaking) on an Optional Dissolution Date; and (d) if so specified in the applicable Final Terms, at the option of the Certificateholders on any Certificateholder Put Option Date.

In the case of sub-paragraphs (a) to (c) above inclusive, the amounts payable by the Trustee on the due date for dissolution will be funded in a similar manner as for the payment of the Final Dissolution Amount. Upon the exercise by Certificateholders of the option described in sub-paragraph (d), the Trustee will redeem the relevant Certificates on the Certificateholder Put Option Date at the Optional Dissolution Amount (Certificateholder Put). Any such redemption shall be funded through the exercise by the Trustee of its right under the Purchase Undertaking to require SIB to purchase all of the Trustee's rights, title, interests, benefits and entitlements in, to and under a portion of the relevant Portfolio with an aggregate Value (as defined below under "*Summary of the Principal Transaction Documents – Service Agency Agreement*") no greater than the aggregate face amount of the Certificates to be redeemed.

## OVERVIEW OF THE PROGRAMME

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

*This overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No. 809/2004 implementing the Prospective Directive.*

*Words and expressions defined in “Structure Diagram and Cashflows”, “Form of the Certificates” and “Terms and Conditions of the Certificates” shall have the same meanings in this overview.*

Issuer and Trustee:	SIB Sukuk Company III Limited, a limited liability exempted company incorporated in accordance with the laws of, and formed and registered in, the Cayman Islands with registered number 276136 and its registered office at MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands. The Trustee has been incorporated solely for the purpose of participating in the transactions contemplated by the Transaction Documents (as defined below) to which it is a party.
Seller and Service Agent:	Sharjah Islamic Bank PJSC
Risk Factors:	There are certain factors that may affect the Trustee’s ability to fulfil its obligations under Certificates issued under the Programme, and SIB’s obligations under the Transaction Documents to which it is a party. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Certificates issued under the Programme. All of these factors are set out under “ <i>Risk Factors</i> ” above.
Ownership of the Trustee:	The authorised share capital of the Trustee is U.S.\$50,000 consisting of 50,000 shares of U.S.\$1 each, of which 250 shares are fully paid up and issued. The Trustee’s entire issued share capital is held by MaplesFS Limited on trust for charitable purposes.
Administration of the Trustee:	The affairs of the Trustee are managed by MaplesFS Limited (the <b>Corporate Administrator</b> ), who will provide, amongst other things, certain administrative services for and on behalf of the Trustee pursuant to a Corporate Services Agreement dated on or about 5 April 2013 between the Trustee and the Trustee Administrator (the <b>Corporate Services Agreement</b> ). The Trustee Administrator’s registered office is P.O. Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands.
Arrangers:	HSBC Bank plc Standard Chartered Bank
Dealers:	Al Hilal Bank PJSC HSBC Bank plc Liquidity Management House for Investment Co. K.S.C.C.

Standard Chartered Bank

and any other Dealer appointed from time to time either generally in respect of the Programme or in relation to a particular Series of Certificates.

Delegate:	Citicorp Trustee Company Limited
	Pursuant to the Master Trust Deed, the Trustee shall delegate to the Delegate certain of the present and future duties, powers, trusts, authorities and discretions vested in the Trustee by certain provisions of the Master Trust Deed. In particular, the Delegate shall be entitled to (and, in certain circumstances, shall, subject to being indemnified and/or secured and/or pre-funded to its satisfaction, be obliged to) take enforcement action in the name of the Trustee against the Seller and/or the Service Agent and/or SIB following a Dissolution Event.
Principal Paying Agent:	Citibank N.A., London Branch
Registrar and Transfer Agent:	Citigroup Global Markets Deutschland AG
Certain Restrictions:	Each Series denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see " <i>Subscription and Sale</i> ").
Programme Size:	Up to U.S.\$1,500,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Trustee and SIB may increase the size of the Programme in accordance with the terms of the Programme Agreement.
Issuance in Series:	The Certificates will be issued in Series, the specific terms of which will be completed in the applicable Final Terms.
Distribution:	Certificates may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Trustee, SIB and the relevant Dealer.
Maturities:	The Certificates will have such maturities as may be agreed between the Trustee, SIB and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Trustee or the relevant Specified Currency.
Issue Price:	Certificates may be issued at any price on a fully paid basis, as specified in the applicable Final Terms. The price and amount of Certificates to be issued under the Programme will be determined by the Trustee, SIB and the relevant Dealer at

the time of issue in accordance with prevailing market conditions.

Form of Certificates:

The Certificates will be issued in registered form as described in “*Form of the Certificates*”. The Certificates of each Series will be represented on issue by ownership interests in a Global Certificate which will be deposited with, and registered in the name of a nominee of, a common depository for Euroclear and Clearstream, Luxembourg. Ownership interests in each Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by each relevant clearing system and its participants. See “*Form of the Certificates*”. Definitive Certificates evidencing holdings of Certificates will be issued in exchange for ownership interests in a Global Certificate only in limited circumstances.

Clearance and Settlement:

Holders of the Certificates must hold their interest in the relevant Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg. Transfers within and between Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearance systems.

Face Amount of Certificates:

The Certificates will be issued in such face amounts as may be agreed between the Trustee, SIB and the relevant Dealer save that the minimum face amount of each Certificate will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see “*Certain Restrictions*” above, and save that the minimum face amount of each Certificate admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €100,000 (or, if the Certificates are issued in a currency other than euro, the equivalent amount in such currency).

Status of the Certificates:

Each Certificate will evidence an undivided ownership interest of the Certificateholders in the Trust Assets of the relevant Series, will be a direct, unsubordinated, unsecured and limited recourse obligation of the Trustee and will rank *pari passu*, without any preference or priority, with all other Certificates of the relevant Series issued under the Programme.

The Trust Assets of the relevant Series will be all of the Trustee’s rights, title, interest and benefit, present and future, in, to and under: (a) the relevant Portfolio; (b) the Transaction Documents (other than: (i) in relation to any representations given to the Trustee by SIB pursuant to any of the Transaction Documents and any rights which have been expressly waived by the Trustee in any of the Transaction Documents; and (ii) the covenant given to the Trustee pursuant to Clause 13.1 of

the Master Trust Deed); (c) all monies standing to the credit of the relevant Transaction Account from time to time, and all proceeds of the foregoing listed (a) to (c) (the **Trust Assets**), and such Trust Assets will be held upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder for the relevant Series.

- Periodic Distributions: Certificateholders are entitled to receive Periodic Distribution Amounts calculated on the basis specified in the applicable Final Terms.
- Redemption of Certificates: Unless the Certificates are previously redeemed or purchased and cancelled, the Certificates shall be redeemed by the Trustee at the relevant Dissolution Amount and on the relevant Scheduled Dissolution Date specified in the applicable Final Terms and the Trust in relation to the relevant Series will be dissolved by the Trustee.
- Dissolution Events: Upon the occurrence of any Dissolution Event, the Certificates may be redeemed in full on the Dissolution Date at the relevant Dissolution Amount, together with any accrued but unpaid Periodic Distribution Amount and the relevant Return Accumulation Period may be adjusted accordingly. See Condition 14.
- Early Dissolution for Tax Reasons: Where: (a) SIB has determined that the Trustee has or will become obliged to pay any additional amounts in respect of the Certificates pursuant to Condition 11; or (b) SIB has or will become obliged to pay any additional amounts in respect of tax under the Service Agency Agreement, the Purchase Undertaking and/or the Sale Undertaking, in each case as a result of a change in the laws of a Relevant Jurisdiction (as defined in the Conditions) and such obligation cannot be avoided by the Trustee or SIB, as applicable, taking reasonable measures available to it, the Trustee may, following receipt of an exercise notice from SIB pursuant to the Sale Undertaking, redeem the Certificates in whole but not in part at an amount equal to the relevant Early Dissolution Amount (Tax) together with any accrued but unpaid Periodic Distribution Amounts on the relevant Dissolution Date and, if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable, the Dissolution Date must be a Periodic Distribution Date.
- Optional Dissolution Right: If so specified in the applicable Final Terms, the Trustee may, following receipt of an exercise notice from SIB pursuant to the Sale Undertaking, redeem in whole but not in part the Certificates of the relevant Series at the relevant Optional Dissolution Amount (Call) on the relevant Optional Dissolution Date and, if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable, the Optional Dissolution Date must be a Periodic Distribution Date.

If applicable to the relevant Series, the Optional Dissolution Date(s) will be specified in the applicable Final Terms.

For *Shari'a* reasons, the Optional Dissolution (Call) and the Certificateholder Put Option cannot both be specified as applicable in any single Series.

Certificateholder Put Option:

If so specified in the applicable Final Terms, Certificateholders may elect to redeem their Certificates on any Certificateholder Put Option Date(s) specified in the applicable Final Terms at an amount equal to the relevant Optional Dissolution Amount (Certificateholder Put) together with any accrued but unpaid Periodic Distribution Amounts in accordance with Condition 10.4. Following the payment by SIB of the relevant exercise price under the Purchase Undertaking, the Trustee will redeem the relevant Certificates on the relevant Certificateholder Put Option Date.

For *Shari'a* reasons, the Certificateholder Put Option and Optional Dissolution (Call) cannot both be specified as applicable in any single Series.

Cancellation of Certificates held by SIB and/or any of its Subsidiaries:

Pursuant to Condition 13, SIB and/or any of its Subsidiaries may at any time purchase Certificates in the open market or otherwise. If SIB wishes to cancel such Certificates purchased by it and/or any of its Subsidiaries, SIB will deliver those Certificates to the Principal Paying Agent for cancellation. SIB may also exercise its option under the Sale Undertaking to require the Trustee to transfer to SIB an undivided ownership interest (each a **Cancellation Interest**) in the relevant Portfolio with an aggregate Value no greater than the aggregate face amount of the Certificates so delivered to the Principal Paying Agent for cancellation and, upon such cancellation, the Trustee will transfer those Assets to SIB, all as more particularly described in the Sale Undertaking. Each Cancellation Interest will be calculated as the ratio, expressed as a percentage, of the aggregate outstanding face amount of the relevant Certificates to be cancelled to the aggregate face amount of the Certificates outstanding immediately prior to the cancellation of such Certificates.

Asset Substitution:

The Service Agent may substitute Assets in accordance with the relevant provisions of the Service Agency Agreement and the Sale Undertaking, provided that no Dissolution Event has occurred and is continuing, the substitute assets are Assets and the Value of such substitute assets shall have an aggregate Value which is not less than the aggregate Value of the Assets to be so substituted.

Withholding Tax:

All payments by SIB under, or pursuant to, the Purchase Undertaking and Sale Undertaking and all payments by the Service Agent under the Service Agency Agreement shall be made without withholding or deduction for, or on account of, any taxes, levies, imposts, duties, fees, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Relevant Jurisdiction unless the

withholding is required by law. In the event that any such withholding or deduction is made, SIB and/or the Service Agent, as the case may be, will be required to pay additional amounts so that the Trustee will receive the full amounts that it would have received in the absence of such withholding or deduction.

All payments in respect of Certificates by the Trustee shall be made without withholding or deduction for, or on account of, any taxes, levies, imposts, duties, fees, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Relevant Jurisdiction. In the event that any such withholding or deduction is made, the Trustee will, save in the limited circumstances provided in Condition 11, be required to pay additional amounts so that the holders of the Certificates will receive the full amounts that they would have received in the absence of such withholding or deduction.

Negative Pledge:	The Purchase Undertaking contains a negative pledge given by SIB. See “ <i>Summary of the Principal Transaction Documents – Purchase Undertaking</i> ”.
Cross Default:	The Purchase Undertaking contains a cross default provision in relation to SIB. See “ <i>Summary of the Principal Transaction Documents – Purchase Undertaking</i> ”.
Trustee Covenants:	The Trustee has agreed to certain restrictive covenants as set out in Condition 5.
Ratings:	The ratings assigned to certain Series to be issued under the Programme will be specified in the applicable Final Terms. A rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of repayment and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency. Whether or not each credit rating applied for in relation to the relevant Series of Certificates will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the applicable Final Terms.
Certificateholder Meetings:	A summary of the provisions for convening meetings of Certificateholders of each Series to consider matters relating to their interests as such is set out in Condition 18.
Tax Considerations:	See “ <i>Taxation</i> ” for a description of certain tax considerations applicable to the Certificates.
Listing and Admission to Trading:	Application has been made to the Irish Stock Exchange for Certificates issued under the Programme to be admitted to the Official List and for such Certificates to be admitted to trading on the Regulated Market.  Certificates may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Trustee, SIB and the relevant Dealer in relation to the Series. Certificates which are neither listed nor admitted to trading on any market may also be issued.

	<p>The applicable Final Terms will state whether or not the relevant Certificates are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.</p>
Transaction Documents:	<p>The Transaction Documents are the Master Trust Deed, each Supplemental Trust Deed, the Agency Agreement, the Master Purchase Agreement, each Supplemental Purchase Contract, the Service Agency Agreement, the Purchase Undertaking and the Sale Undertaking.</p>
Governing Law and Dispute Resolution:	<p>The Certificates of each Series and any non-contractual obligations arising out of or in connection with the Certificates of each Series will be governed by, and construed in accordance with, English law.</p>
	<p>The Master Trust Deed, each Supplemental Trust Deed, the Programme Agreement, the Agency Agreement, the Service Agency Agreement, the Purchase Undertaking, the Sale Undertaking and any non-contractual obligations arising out of or in connection with the same will be governed by English law. In respect of any dispute under any such agreement or deed (other than the Service Agency Agreement, Purchase Undertaking and Sale Undertaking) to which it is a party, SIB has consented to arbitration in London under the LCIA Arbitration Rules. Any dispute may also be referred to the courts in England (who shall have exclusive jurisdiction to settle any dispute arising from such documents). SIB has agreed to submit to the jurisdiction of the DIFC Courts in respect of any dispute under the Service Agency Agreement, Purchase Undertaking and Sale Undertaking (subject to the right of the Trustee and the Delegate to require any dispute to be resolved by either arbitration in London (under the LCIA Arbitration Rules) or any other court of competent jurisdiction).</p>
	<p>The Master Purchase Agreement will be governed by the laws of Sharjah and, to the extent applicable in Sharjah, the federal laws of the UAE, and will be subject to the non-exclusive jurisdiction of the Sharjah courts. Each Supplemental Purchase Contract, each Sale Agreement entered into under the Purchase Undertaking and each Sale Agreement or Transfer Agreement entered into under the Sale Undertaking will be governed by the laws of Sharjah or, in the case of Real Estate Assets located in any other Emirate, the laws of that Emirate and, to the extent applicable in Sharjah or, as the case may be, that other Emirate, the federal laws of the UAE, and will be subject to the non-exclusive jurisdiction of the Sharjah Courts or, as the case may be, the courts of that other Emirate.</p>
	<p>The Corporate Services Agreement will be governed by the laws of the Cayman Islands and will be subject to the non-exclusive jurisdiction of the courts of the Cayman Islands.</p>
Waiver of Immunity:	<p>To the extent that SIB may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and all other legal</p>

proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or its assets or revenues, SIB will agree in the Transaction Documents to which it is a party not to claim and will irrevocably and unconditionally waive such immunity in relation to any legal proceedings. Further, SIB will irrevocably and unconditionally consent to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any legal proceedings.

Limited Recourse:

Each Certificate represents solely an undivided ownership interest in the relevant Trust Assets. No payment of any amount whatsoever shall be made in respect of the Certificates except to the extent that funds for that purpose are available from the relevant Trust Assets.

Certificateholders will otherwise have no recourse to any assets of the Trustee and/or its directors, officers, administrators or shareholders, or SIB in respect of any shortfall in the expected amounts due under the relevant Trust Assets to the extent the Trust Assets have been exhausted, following which all obligations of the Trustee shall be extinguished.

Selling Restrictions:

There are restrictions on the distribution of this Base Prospectus and the offer or sale of Certificates in the United States, the European Economic Area (including the Republic of Ireland and the United Kingdom), the Cayman Islands, Japan, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Kingdom of Saudi Arabia, the Kingdom of Bahrain, the State of Qatar (excluding the Qatar Financial Centre), Singapore, Hong Kong and Malaysia.

United States Selling Restrictions: Regulation S, Category 2.

## FORM OF THE CERTIFICATES

The Certificates of each Series will be in registered form. Certificates will be issued outside the United States to persons who are not U.S. persons in reliance on Regulation S.

Each Series will initially be represented by a global certificate in registered form (a **Global Certificate**). Global Certificates will be deposited with a common depository for Euroclear Bank S.A./N.V. (Euroclear) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) and will be registered in the name of a nominee for the common depository. Persons holding ownership interests in Global Certificates will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Certificates in fully registered form.

Payments of any amount in respect of each Global Certificate will, in the absence of any provision to the contrary, be made to the person shown on the relevant Register (as defined in Condition 1.2) as the registered holder of the relevant Global Certificate. None of the Trustee, the Delegate, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Certificates or for maintaining, supervising or reviewing any records relating to such ownership interests.

Payment of any amounts in respect of Certificates in definitive form will, in the absence of any provision to the contrary, be made to the persons shown on the relevant Register on the relevant Record Date (as defined in Condition 8.1) immediately preceding the due date for payment in the manner provided in the Conditions.

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

In such circumstances, the relevant Global Certificate shall be exchanged in full for Definitive Certificates and the Trustee will, at the cost of the Trustee (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar within 15 days following the request for exchange for completion and dispatch to the relevant Certificateholders. A person having an interest in a Global Certificate must provide the Registrar with a written order containing instructions and such other information as the Trustee and the Registrar may require to complete, execute and deliver such Definitive Certificates.

### General

For so long as any of the Certificates is represented by a Global Certificate held on behalf of Euroclear and/or Clearstream, Luxembourg each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular face amount of such Certificates in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes (save in the case of manifest error) shall be treated by the Trustee, the Delegate

and their respective agents as the holder of such face amount of such Certificates for all purposes other than with respect to any payment on such face amount of such Certificates, for which purpose the registered holder of the relevant Global Certificate shall be treated by the Trustee, the Delegate and their respective agents as the holder of such face amount of such Certificates in accordance with and subject to the terms of the relevant Global Certificate and the expressions **Certificateholder** and **holder of Certificates** and related expressions shall be construed accordingly.

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

## FORM OF FINAL TERMS

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

[Date]

**SIB Sukuk Company III Limited**  
**Issue of [Aggregate Face Amount of Series] [Title of Certificates]**  
**under the**  
**U.S.\$1,500,000,000**  
**Trust Certificate Issuance Programme**

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 8 April 2013 [and the Supplement[s] to the Base Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) as amended (which includes the amendments made by Directive 2010/73/EU (the **2010 PD Amending Directive**) to the extent that such amendments have been implemented in a relevant Member State) (the **Prospectus Directive**). This document constitutes the Final Terms of the Certificates described herein [for the purposes of Article 5.4 of the Prospectus Directive] and must be read in conjunction with the Base Prospectus [as so supplemented].

Full information on the Trustee and Sharjah Islamic Bank PJSC (**SIB**) and the offer of the Certificates is only available on the basis of a combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing during normal business hours at the registered office of the Trustee at P.O. Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands and copies may be obtained from the registered office of the Principal Paying Agent at [●]. The Base Prospectus has been published on the website of the Central Bank of Ireland (<http://www.centralbank.ie>).

- |  |  |
|--|--|
| 1. Issuer and Trustee:                   | SIB Sukuk Company III Limited  |
| 2. Service Agent:                        | Sharjah Islamic Bank PJSC ( <b>SIB</b> )   |
| 3. Series Number:                        | [●]  |
| 4. Specified Currency:                   | [●]  |
| 5. Aggregate Face Amount of Series:      | [●]  |
| 6. Issue Price:                          | 100 per cent. of the Aggregate Face Amount   |
| 7. (a) Specified Denominations:          | [●]  |
| (b) Calculation Amount:                  | [●]  |
| 8. (a) Issue Date:                       | [[●]/Issue Date/Not Applicable]  |
| (b) Return Accrual<br>Commencement Date: | [●]  |
| 9. Scheduled Dissolution Date:           | [●]  |
| 10. Periodic Distribution Amount Basis:  | [[●] per cent. Fixed Periodic Distribution Amount]<br>[[●] +/- [●] per cent. Floating Periodic Distribution<br>Amount] |

- |  |   |
|--|---|
| 11. Dissolution Basis:   | Dissolution at par  |
| 12. Change of Periodic Distribution Basis:                     | [Applicable]/[Not Applicable]   |
| 13. Put/Call Options:  | [Not Applicable]/[Certificateholder Put Option]/<br>[Optional Dissolution (Call)] |
| 14. Status:  | Unsubordinated  |
| 15. Method of distribution:                                    | [Syndicated]/[Non-syndicated]   |
| 16. Date of Board Approval for issue of Certificates obtained: | [●] in the case of the Trustee<br>[●] in the case of the SIB                      |

#### PROVISIONS RELATING TO PERIODIC DISTRIBUTIONS PAYABLE

- |  |   |
|--|---|
| 16. Fixed Periodic Distribution Provisions:              | [Applicable]/[Not Applicable]   |
| (a) Rate[s]:   | [●] per cent. per annum [payable [annually/semi annually/quarterly/monthly] in arrear]  |
| (b) Periodic Distribution Date(s):                       | [●] in each year up to and including the Scheduled Dissolution Date   |
| (c) Fixed Amount(s):                                     | [●] per Calculation Amount  |
| (d) Broken Amount(s):                                    | [[●] per Calculation Amount]/[Not Applicable]   |
| (e) Day Count Fraction:                                  | [30/360]/[Actual/Actual (ICMA)]   |
| (f) Determination Date(s):                               | [[●] in each year]/[Not Applicable]   |
| 17. Floating Periodic Distribution Provisions:           | [Applicable]/[Not Applicable]   |
| (a) Specified Periodic Distribution Dates:               | [●]/[Not Applicable]  |
| (b) Specified Period:                                    | [●]/[Not Applicable]  |
| (c) Business Day Convention:                             | [Floating Rate Convention]/[Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention] |
| (d) Additional Business Centre(s):                       | [●]/[Not Applicable]  |
| (e) Manner in which the Rate(s) is/are to be determined: | Screen Rate Determination (Condition 7.3) applies   |
| (f) Screen Rate Determination:                           | [Applicable]/[Not Applicable]   |
| (i) Reference Rate:                                      | [●] month [[ <i>currency</i> ] LIBOR / EURIBOR / SHIBOR / HIBOR / EIBOR / SIBOR / SAIBOR]   |
| (ii) Periodic Distribution Determination Date:           | [●]   |
| (iii) Relevant Screen Page:                              | [●]   |
| (iv) Relevant Time:                                      | [●]   |
| (g) Margin:  | [+/-][●] per cent. per annum  |

- (h) Day Count Fraction: [Actual / Actual (ISDA)] / [Actual/365 (Fixed)] / [Actual/365 (Sterling)] / [Actual/360] / [30/360] / [360/360] / [Bond Basis] / [30E/360] / [Eurobond Basis] / [30E/360 (ISDA)]
- (i) Calculation Agent: Principal Paying Agent

#### PROVISIONS RELATING TO DISSOLUTION

18. Optional Dissolution (Call): [Applicable]/[Not Applicable]
- (a) Optional Dissolution Amount (Call): [Final Dissolution Amount][●] per Calculation Amount]
- (b) Optional Dissolution Amount (Call) Percentage: [●] per cent.
- (c) Optional Dissolution Date: [●]/[Any Periodic Distribution Date]
19. Certificateholder Put Option: [Applicable]/[Not Applicable]
- (a) Optional Dissolution Amount (Certificateholder Put): [Final Dissolution Amount][●] per Calculation Amount]
- (b) Optional Dissolution Amount (Certificateholder Put) Percentage: [●] per cent.
- (c) Certificateholder Put Option Date(s): [●]/[Any Periodic Distribution Date]
20. Final Dissolution Amount: [●] per Calculation Amount
21. Early Dissolution Amount (Tax): [Final Dissolution Amount]/[●] per Calculation Amount]
22. Dissolution Amount pursuant to Condition 14: [Final Dissolution Amount]/[●] per Calculation Amount]

#### GENERAL PROVISIONS APPLICABLE TO THE CERTIFICATES

23. Form of Certificates: Registered Certificates
- Global Certificate exchangeable for Certificates in definitive registered form in the limited circumstances specified in the Global Certificate
24. Additional Financial Centres: [●]/[Not applicable]

#### PROVISIONS IN RESPECT OF THE TRUST ASSETS

25. Assets on the Issue Date: The Initial Portfolio as scheduled to the Supplemental Purchase Contract specified below.
26. Trust Assets: Condition 4.1 applies
27. (i) Details of Transaction Account: SIB Sukuk Company III Limited Transaction Account No: [●] with [●] for Series No.[●]
- (ii) Currency: [●]

28. Other Transaction Document Information:

- (a) Supplemental Trust Deed: Supplemental Trust Deed dated [●] between SIB Sukuk Company III Limited, SIB and the Delegate
- (b) Supplemental Purchase Contract: Supplemental Purchase Contract dated [●] between SIB Sukuk Company III Limited (as Purchaser) and SIB (as Seller)

**RESPONSIBILITY**

The Trustee and SIB accepts responsibility for the information contained in these Final Terms.

Signed on behalf of

**SIB SUKUK COMPANY III LIMITED**

By: .....

*Duly authorised*

Signed on behalf of

**SHARJAH ISLAMIC BANK PJSC**

By: .....

*Duly authorised*

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

(i) Listing and admission to trading: [Application has been made by the Issuer and Trustee (or on its behalf) for the Certificates to be admitted to trading on [●] with effect from [●].

[Application is expected to be made by the Issuer and Trustee (or on its behalf) for the Certificates to be admitted to trading on [●] with effect from [●].]

[Not Applicable.]

(ii) Estimate of total expenses related to admission to trading: [●]

### 2. RATINGS

Ratings: [Fitch: [●]]

[S&P: [●]]

[Other: [●]]

[[●] is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**).]

[[●] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**).]

[[●] is not established in the European Union and is not registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**).]

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

[Save for any fees payable to the [Managers/Dealer], so far as each of the Trustee and SIB is aware, no person involved in the issue of the Certificates has an interest material to the offer.

[The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, SIB and its affiliates in the ordinary course of its business for which they may receive fees.]

### 4. [PROFIT OR RETURN (*Fixed Periodic Distribution Certificates only*)

Indication of profit or return: [●]

The profit or return is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future profit or return.]

### 5. OPERATIONAL INFORMATION

(i) ISIN Code: [●]

(ii) Common Code: [●]

- (iii) Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable]/[give name(s) and number(s)]
- (iv) Delivery: Delivery [against/free of] payment

## 6. THIRD PARTY INFORMATION

[[*Relevant third party information*] has been extracted from [*specify source*]. The Trustee and SIB confirm that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]/[Not applicable]

## TERMS AND CONDITIONS OF THE CERTIFICATES

*The following is the text of the Terms and Conditions of the Certificates which (subject to modification and except for the text in italics) will be endorsed on, and attached to, each Certificate in definitive form issued under the Programme and will be incorporated by reference into each Global Certificate.*

*The applicable Final Terms in relation to any Series shall complete the following Terms and Conditions and, to the extent inconsistent with the following Terms and Conditions, modify the following Terms and Conditions for the purpose of such Series.*

SIB Sukuk Company III Limited (in its capacities as issuer and trustee, the **Trustee**) has established a programme (the **Programme**) for the issuance of up to U.S.\$1,500,000,000 in aggregate face amount of trust certificates. In these Terms and Conditions (the **Conditions**), references to **Certificates** shall be references to the trust certificates which are the subject of the **applicable Final Terms** and references to the applicable Final Terms are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Certificate.

Certificates issued under the Programme are issued in series (each a **Series**). The applicable Final Terms complete these Conditions and shall, to the extent inconsistent with these Conditions, modify these Conditions for the purposes of this Certificate.

Each of the Certificates will represent an undivided ownership interest in the Trust Assets (as defined in Condition 4.1) which are held by the Trustee on trust (the **Trust**) for, *inter alia*, the benefit of the registered holders of the Certificates pursuant to: (a) a Master Trust Deed (the **Master Trust Deed**) dated 8 April 2013 and made between the Trustee, Sharjah Islamic Bank PJSC (**SIB**) and Citicorp Trustee Company Limited (the **Delegate** which expression shall include any co-Delegate or any successor); and (b) a supplemental trust deed (the **Supplemental Trust Deed** and, together with the Master Trust Deed, the **Trust Deed**) having the details set out in the applicable Final Terms.

Payments relating to the Certificates will be made pursuant to an agency agreement dated 8 April 2013 (the **Agency Agreement**) made between the Trustee, the Delegate, SIB, Citibank N.A., London Branch in its capacities as principal paying agent (in such capacity, the **Principal Paying Agent**, which expression shall include any successor and, together with any further or other paying agents appointed from time to time in accordance with the Agency Agreement, the **Paying Agents**, which expression shall include any successors) and calculation agent (in such capacity, the **Calculation Agent**, which expression shall include any successor) and Citigroup Global Markets Deutschland AG in its capacities as a registrar (in such capacity, the **Registrar**, which expression shall include any successor) and as transfer agent (in such capacity and together with the Registrar, the **Transfer Agents**, which expression shall include any successors). The Paying Agents, the Calculation Agent and the Transfer Agents are together referred to in these Conditions as the **Agents**.

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

- (a) any reference to face amount shall be deemed to include the relevant Dissolution Amount (as defined in Condition 8.1), any additional amounts (other than relating to Periodic Distribution Amounts (as defined in Condition 6.2)) which may be payable under Condition 11, and any other amount in the nature of face amounts payable pursuant to these Conditions;
- (b) any reference to Periodic Distribution Amounts shall be deemed to include any additional amounts in respect of profit distributions which may be payable under Condition 11 and any other amount in the nature of a profit distribution payable pursuant to these Conditions;

- (c) references to Certificates being “outstanding” shall be construed in accordance with the Master Trust Deed; and
- (d) any reference to a Transaction Document (as defined below) shall be construed as a reference to that Transaction Document as amended and/or supplemented from time to time.

Subject as set out below, copies of the documents set out below are available for inspection and obtainable free of charge by the Certificateholders during normal business hours at the principal office of the Trustee (presently at PO Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands) and at the specified office for the time being of the Principal Paying Agent. The holders of the Certificates (the **Certificateholders**) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the documents set out below:

- (a) a master purchase agreement between SIB Sukuk Company III Limited (in its capacity as Trustee and in its capacity as purchaser, the **Purchaser**) and SIB (in its capacity as seller, the **Seller**) dated 8 April 2013 (the **Master Purchase Agreement**);
- (b) the supplemental purchase contract (the **Supplemental Purchase Contract** and, together with the Master Purchase Agreement, the **Purchase Agreement**) having the details set out in the applicable Final Terms;
- (c) the service agency agreement between the Trustee and SIB (in its capacity as service agent, the **Service Agent**) dated (the **Service Agency Agreement**);
- (d) the purchase undertaking granted by SIB for the benefit of the Trustee and the Delegate dated 8 April 2013 (the **Purchase Undertaking**) together with any sale agreement that may be entered into as a result of the exercise of rights under the Purchase Undertaking;
- (e) the sale undertaking granted by the Trustee for the benefit of SIB dated 8 April 2013 (the **Sale Undertaking**) together with any sale agreement that may be entered into as a result of the exercise rights under the Sale Undertaking;
- (f) the Master Trust Deed (and the applicable Supplemental Trust Deed entered into in respect of each Series);
- (g) the Agency Agreement;
- (h) in respect of each Series, the applicable Final Terms; and
- (i) a corporate services agreement entered into on 5 April 2013 between MaplesFS Limited (as provider of corporate services to the Trustee) and the Trustee (the **Corporate Services Agreement**),

each as may be amended and restated and/or supplemented from time to time.

The documents listed in paragraphs (a) to (h) (inclusive) above are referred to in these Conditions as the **Transaction Documents**. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Master Trust Deed as supplemented by the applicable Supplemental Trust Deed and the Agency Agreement.

Each Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed, in respect of each Series, to authorise and direct the Trustee, on behalf of the Certificateholders, (i) to apply the sums paid by it in respect of its Certificates to the Seller in accordance with the Purchase Agreement; and (ii) to enter into each Transaction Document to which it is a party, subject to the provisions of the Master Declaration of Trust as supplemented by the relevant Supplemental Trust Deed and these Conditions.

## 1. FORM, DENOMINATION AND TITLE

### 1.1 Form and Denomination

The Certificates are issued in registered form in the Specified Denominations and, in the case of Certificates in definitive form, are serially numbered.

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

In determining whether a particular person is entitled to a particular face amount of Certificates as aforesaid, the Trustee and the Delegate may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Each holder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the registered holder of the Global Certificate. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

### 1.2 Register

The Registrar will maintain a register (the **Register**) of Certificateholders in respect of the Certificates in accordance with the provisions of the Agency Agreement. In the case of Certificates in definitive form, a definitive Certificate will be issued to each Certificateholder in respect of its registered holding of Certificates.

### 1.3 Title

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

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

## **2 TRANSFERS OF CERTIFICATES**

### **2.1 Transfers of interests in the Global Certificate**

Transfers of interests in the Global Certificate will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. An interest in the Global Certificate will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Certificates in definitive form only in the Specified Denomination or integral multiples thereof and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Trust Deed and the Agency Agreement.

### **2.2 Transfers of Certificates in definitive form**

Upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Certificate in definitive form may be transferred in whole or in part (in the Specified Denomination or an integral multiple thereof). In order to effect any such transfer: (a) the holder or holders must: (i) surrender the definitive Certificate for registration of the transfer thereof (or the relevant part thereof) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing; and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent; and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such regulations as SIB Sukuk Company III Limited, SIB, the Delegate and the Registrar may from time to time prescribe (the initial such regulations being scheduled to the Master Trust Deed).

Subject as provided above, the relevant Transfer Agent will, within five business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), deliver at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail to such address as the transferee may request a new Certificate in definitive form of a like aggregate face amount to the Certificate (or the relevant part of the Certificate) transferred. In the case of the transfer of part only of a Certificate in definitive form, a new Certificate in definitive form in respect of the balance of the Certificate not transferred will be so delivered or (at the risk of the transferor) sent to the transferor.

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

### **2.3 Costs of registration**

Certificateholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Trustee may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

### **3 STATUS AND LIMITED RECOURSE**

#### **3.1 Status**

Each Certificate evidences an undivided ownership interest in the Trust Assets, subject to the terms of the Trust Deed and these Conditions, and is a direct, unsubordinated, unsecured and limited recourse obligation of the Trustee. Each Certificate ranks *pari passu*, without any preference or priority, with the other Certificates of the relevant Series issued under the Programme.

#### **3.2 Limited Recourse**

The proceeds of the Trust Assets are the sole source of payments on the Certificates of each Series. Save as provided in the next sentence, the Certificates do not represent an interest in or obligation of any of the Trustee, SIB, the Delegate, the Agents or any of their respective affiliates. Accordingly, Certificateholders, by subscribing for or acquiring the Certificates, acknowledge that they will have no recourse to any assets of the Trustee (including, in particular, other assets comprised in other trusts, if any), SIB (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party), or the Delegate, or the Agents, or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets to the extent the Trust Assets have been exhausted following which all obligations of the Trustee shall be extinguished.

SIB is obliged to make certain payments under the Transaction Documents to which it is a party directly to the Trustee for, and on behalf of, the Certificateholders, and the Trustee and the Delegate (acting in the name, and on behalf, of the Trustee) will have direct recourse against SIB to recover such payments.

The net proceeds of realisation of, or enforcement with respect to, the Trust Assets may not be sufficient to make all payments due in respect of the Certificates of the corresponding Series. If, following the distribution of such proceeds, there remains a shortfall in payments due under the Certificates, subject to Condition 14, no holder of Certificates will have any claim against the Trustee and/or its directors, officers, administrators or shareholders, SIB (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party), or the Delegate, or the Agents, or any of their respective affiliates or against any assets (other than the Trust Assets to the extent not exhausted) in respect of such shortfall and any unsatisfied claims of Certificateholders shall be extinguished. In particular, no holder of Certificates will be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding up or receivership of SIB Sukuk Company III Limited, SIB (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party), the Delegate, the Agents or any of their respective affiliates as a consequence of such shortfall or otherwise.

#### **3.3 Agreement of Certificateholders**

By purchasing Certificates, each Certificateholder is deemed to have agreed that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

- (a) no payment of any amount whatsoever shall be made by or on behalf of SIB Sukuk Company III Limited except to the extent funds are available therefor from the Trust Assets and further agrees that no recourse shall be had for the payment of any amount owing hereunder or under any Transaction Document to which it is a party, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon any Transaction Document, against SIB Sukuk Company III Limited to the extent the Trust Assets have been exhausted following which all obligations of SIB Sukuk Company III Limited shall be extinguished;

- (b) prior to the date which is one year and one day after the date on which all amounts owing by SIB Sukuk Company III Limited under the Transaction Documents have been paid in full, it will not institute against, or join with any other person in instituting against, SIB Sukuk Company III Limited any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law; and
- (c) no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of SIB Sukuk Company III Limited arising under or in connection with these Conditions by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer or director of SIB Sukuk Company III Limited in their capacity as such and any and all personal liability of every such shareholder, officer or director in their capacity as such for any breaches by SIB Sukuk Company III Limited of any such duty, obligation or undertaking is hereby expressly waived and excluded to the extent permitted by law.

## 4 THE TRUST

### 4.1 The Trust Assets

On each Issue Date, the Seller will sell (pursuant to the Purchase Agreement) a portfolio (the **Initial Portfolio**) of certain assets (the **Assets**) specified in the Supplemental Purchase Contract to the Trustee and the Trustee will purchase the Initial Portfolio using the proceeds of the issue of the Certificates. The Trustee has entered into the Service Agency Agreement with the Service Agent as service agent of the Portfolio (as defined in the Service Agency Agreement).

SIB has entered into the Purchase Undertaking in favour of the Trustee and the Delegate to purchase all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the Portfolio on the Scheduled Dissolution Date at the Final Dissolution Amount (each as defined in Condition 10.1) or, if earlier, on the due date for dissolution determined in accordance with Condition 14 at the Dissolution Amount specified in the applicable Final Terms. If Certificateholder Put Option is specified in the applicable Final Terms as being applicable, the Purchase Undertaking may be exercised prior to a Certificateholder Put Option Date (as specified in the applicable Final Terms) to fund the relevant Certificates being redeemed under Condition 10.4 through the purchase by SIB of the Trustee's rights, title, interests, benefits and entitlements in, to and under a portion of the Portfolio with an aggregate Value (as defined in the Service Agency Agreement) no greater than the aggregate face amount of such Certificates being redeemed.

Pursuant to the Sale Undertaking, subject to the Trustee being entitled to redeem the Certificates early pursuant to Condition 10.2, SIB may, by exercising its option under the Sale Undertaking and serving notice on the Trustee no later than 60 days prior to the Tax Dissolution Date (as defined in Condition 10.2), oblige the Trustee to sell to SIB all of its rights, title, interests, benefits and entitlements in, to and under the Portfolio on the Tax Dissolution Date at the Early Dissolution Amount (Tax). If Optional Dissolution (Call) is specified in the applicable Final Terms as being applicable, SIB may, by exercising its option under the Sale Undertaking and serving notice on the Trustee no later than 60 days prior to the Optional Dissolution Date, oblige the Trustee to sell to SIB all of its rights, title, interests, benefits and entitlements in, to and under the Portfolio on the Optional Dissolution Date.

Following any purchase of Certificates by or on behalf of SIB or any of its Subsidiaries (as defined in Condition 13) pursuant to Condition 13, the Sale Undertaking may also be exercised in respect of the transfer to SIB of an ownership interest (a **Cancellation Interest**) in the Portfolio with an aggregate Value no greater than the aggregate face amount of the Certificates so purchased against cancellation of such Certificates by the Principal Paying

Agent. The Cancellation Interest will be calculated as the ratio, expressed as a percentage, of the aggregate outstanding face amount of the relevant Certificates to be cancelled to the aggregate face amount of the Certificates outstanding immediately prior to the cancellation of such Certificates.

Pursuant to the Trust Deed, the Trustee holds the Trust Assets upon trust absolutely for the holders of the Certificates in respect of a Series *pro rata* according to the face amount of Certificates held by each holder in respect of that Series. Unless otherwise specified in the applicable Final Terms, the term **Trust Assets** means:

- (a) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Portfolio for the corresponding Series;
- (b) the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than (i) in relation to any representations given to the Trustee by SIB pursuant to any of the Transaction Documents and any rights which have been expressly waived by the Trustee in any of the Transaction Documents, and (ii) the covenant given to the Trustee pursuant to Clause 13.1 of the Master Trust Deed); and
- (c) monies standing to the credit of the Transaction Account in respect of that Series specified in the applicable Final Terms (the Transaction Account) from time to time; and
- (d) all proceeds of the foregoing.

#### 4.2 Application of Proceeds from the Trust Assets

On each Periodic Distribution Date and on the Scheduled Dissolution Date or any earlier Dissolution Date for each Series, the monies standing to the credit of the Transaction Account shall be applied in the following order of priority:

- (a) *first*, to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate;
- (b) *second*, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due and unpaid;
- (b) *third*, only if such payment is made on the Scheduled Dissolution Date or a Dissolution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of the relevant Dissolution Amount;
- (d) *fourth*, only if such payment is made on the Scheduled Dissolution Date or the final Dissolution Date, to the Service Agent to repay any amounts advanced by way of a Liquidity Facility (as defined in the Service Agency Agreement);
- (e) *fifth*, only if such payment is made on the Scheduled Dissolution Date or the final Dissolution Date, to the Service Agent in or towards payment of any outstanding Service Agency Liability Amounts (as defined in the Service Agency Agreement); and
- (f) *sixth*, only after all necessary payments above have been made in full, to SIB.

## 5 COVENANTS

The Trustee covenants that, for so long as any Certificate is outstanding, it shall not:

- (a) incur any indebtedness in respect of borrowed money whatsoever (whether structured in accordance with the principles of the Sharia or otherwise), or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable

for shares) or any other certificates except, in all cases, as contemplated in the Transaction Documents;

- (b) grant or permit to be outstanding any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law or contemplated by the Transaction Documents);
- (c) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of its ownership interest in any of the Trust Assets except pursuant to the Transaction Documents;
- (d) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;
- (e) amend or agree to any amendment of any Transaction Document to which it is a party (other than in accordance with the terms thereof) or its memorandum and articles of association;
- (f) act as trustee in respect of any trust other than a trust corresponding to any other Series issued under the Programme;
- (g) have any subsidiaries or employees;
- (h) redeem or purchase any of its shares or pay any dividend or make any other distribution to its shareholders;
- (i) prior to the date which is one year and one day after the date on which all amounts owing by the Trustee under the Transaction Documents to which it is a party have been paid in full, put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it; and
- (j) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents, the Programme Agreement and any subscription agreement connected to the issue of the Certificates or any permitted amendment or supplement thereto or as expressly permitted or required thereunder or engage in any business or activity other than:
  - (i) as provided for or permitted in the Transaction Documents;
  - (ii) the ownership, management and disposal of Trust Assets as provided in the Transaction Documents; and
  - (iii) such other matters which are incidental thereto.

*In the Purchase Undertaking, SIB has undertaken that, so long as any Certificate remains outstanding, SIB will not, and shall ensure that none of its Material Subsidiaries will, create or permit to subsist any Security Interest, other than a Permitted Security Interest, upon the whole or any part of its present or future undertakings, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or any Guarantee of Relevant Indebtedness given by it without:*

- (a) *at the same time or prior thereto securing equally and rateably therewith its obligations under the Transaction Documents to which it is, in whatever capacity, a party; or*

- (b) *providing such other Security Interest for those obligations as may be approved by the Certificateholders by an Extraordinary Resolution.*

*For these purposes:*

**Guarantee** *means, in relation to any Indebtedness or Relevant Indebtedness of any person, any obligation of another person to pay such Indebtedness or Relevant Indebtedness following demand or claim on that person including (without limitation):*

- (a) *any obligation to purchase such Indebtedness or Relevant Indebtedness;*
- (b) *any obligation to extend financing, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness or Relevant Indebtedness;*
- (c) *any indemnity against the consequences of a default in the payment of such Indebtedness or Relevant Indebtedness; and*
- (d) *any other agreement to be responsible for such Indebtedness or Relevant Indebtedness.*

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

**Material Subsidiary** *means, at any time, any Subsidiary:*

- (a) *whose total assets (consolidated, in the case of a Subsidiary which itself has Subsidiaries) exceed 5 per cent. of the consolidated total assets of SIB; or*
- (b) *whose revenues (consolidated, in the case of a Subsidiary which itself has Subsidiaries) exceed 5 per cent. of the consolidated net operating revenues of SIB.*

**Non-recourse Project Financing** *means any financing of all or part of the costs of the acquisition, construction or development of any project, provided that (a) any Security Interest given by SIB or the relevant Material Subsidiary, as the case may be, is limited solely to assets of the project, (b) the person providing such financing expressly agrees to limit its recourse to the project financed and the revenues derived from such project as the principal source of repayment for the monies advanced, and (c) there is no other recourse to SIB or the relevant Material Subsidiary, as the case may be, in respect of any default by any person under the financing.*

**Permitted Security Interest** *means:*

- (a) *any Security Interest securing any Relevant Indebtedness of a person existing at the time that such person is merged into, or consolidated with SIB or the relevant Material Subsidiary, as the case may be, provided that such Security Interest was not created in contemplation of such merger or consolidation and does not extend to any other assets or property of SIB or the relevant Material Subsidiary, as the case may be;*
- (b) *any Security Interest arising by operation of law, provided that such Security Interest is discharged within 30 days of arising;*
- (c) *any Security Interest existing on any property or assets prior to the acquisition thereof by SIB or the relevant Material Subsidiary, as the case may be, provided that such Security Interest was not created in contemplation of such acquisition and does not extend to other assets or property of SIB or the relevant Material Subsidiary, as the case may be (other than proceeds of such acquired assets or property), and provided*

*that the maximum amount of Relevant Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property or the Relevant Indebtedness incurred solely for the purpose of financing the acquisition of such property; or*

- (d) *any renewal of or substitution for any Security Interest permitted by any of paragraphs (a) to (c) (inclusive) of this definition, provided that with respect to any such Security Interest the principal amount secured has not increased and the Security Interest has not been extended to any additional assets (other than the proceeds of such assets).*

**Relevant Indebtedness** means (a) *any Indebtedness, other than Indebtedness incurred in connection with a Non-recourse Project Financing or a Securitisation, which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or are capable of being, quoted, listed, dealt in or traded on any stock exchange, over-the-counter or other securities market, and* (b) *any Relevant Sukuk Obligation.*

**Relevant Sukuk Obligation** means *any undertaking or other obligation, other than any undertaking or obligation incurred in connection with a Non-recourse Project Financing or a Securitisation, to pay any money given in connection with the issue of trust certificates or other similar securities, whether or not in return for consideration of any kind, which for the time being are, or are intended to be or are capable of being, quoted, listed, dealt in or traded on any stock exchange, over-the-counter or other securities market.*

**Securitisation** means *any securitisation of existing or future assets and/or revenues, provided that (a) any Security Interest given by SIB or the relevant Material Subsidiary, as the case may be, in connection therewith is limited solely to the assets and/or revenues which are the subject of the securitisation, (b) each person participating in such securitisation expressly agrees to limit its recourse to the assets and/or revenues so securitised as the principal source of repayment for the money advanced or payment of any other liability, and (c) there is no other recourse to SIB or the relevant Material Subsidiary, as the case may be, in respect of any default by any person under the securitisation.*

**Security Interest** means *any mortgage, pledge, lien, charge, assignment by way of security, hypothecation or other security interest including, without limitation, any other agreement or arrangement having the effect of conferring security.*

**Subsidiary** means *in relation to any person (the **first person**) at any particular time, any other person (the **second person**):*

- (a) *whose affairs and policies the first person controls or has power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise; or*
- (b) *whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first person.*

## **6 FIXED PERIODIC DISTRIBUTION PROVISIONS**

### **6.1 Application**

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

### **6.2 Periodic Distribution Amount**

Subject to Condition 4.2 and Condition 8 and unless otherwise specified in the applicable Final Terms, the Trustee shall distribute to holders *pro rata* to their respective holdings, out

of amounts transferred to the Transaction Account, a distribution in relation to the Certificates on each Periodic Distribution Date equal to the Periodic Distribution Amount payable in respect of the Return Accumulation Period ending immediately before that Periodic Distribution Date.

In these Conditions:

**Periodic Distribution Amount** means, in relation to a Certificate and a Return Accumulation Period, the amount of profit distribution payable in respect of that Certificate for that Return Accumulation Period which amount may be a Fixed Amount, a Broken Amount or an amount otherwise calculated in accordance with this Condition 6 or Condition 7; and

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

### 6.3 Determination of Periodic Distribution Amount

Except as provided in the applicable Final Terms, the Periodic Distribution Amount payable in respect of each Certificate in definitive form for any Return Accumulation Period shall be the Fixed Amount or, if so specified in the applicable Final Terms, the Broken Amount so specified.

Except in the case of Certificates in definitive form where a Fixed Amount or Broken Amount is specified in the applicable Final Terms, the Periodic Distribution Amount payable in respect of each Certificate shall be calculated by applying the rate or rates (expressed as a percentage per annum) specified in the applicable Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the applicable Final Terms (the **Rate**) applicable to the relevant Return Accumulation Period to:

- (a) in the case of Certificates which are represented by a Global Certificate, the aggregate outstanding face amount of the Certificates represented by such Global Certificate; or
- (b) in the case of Certificates in definitive form, the Calculation Amount;
- (c) and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Certificate in definitive form is a multiple of the Calculation Amount, the amount of profit distribution payable in respect of such Certificate shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

In this Condition:

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

- (a) if "**Actual/Actual (ICMA)**" is specified in the applicable Final Terms:
  - (i) in the case of Certificates where the number of days in the relevant period from (and including) the most recent Periodic Distribution Date (or, if none, the Return Accrual Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the actual number of days in such Accrual Period divided by the product of:

- (1) the number of days in such Determination Period; and
  - (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
- (ii) in the case of Certificates where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
- (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of: (aa) the number of days in such Determination Period; and: (bb) the number of Determination Dates that would occur in one calendar year; and
  - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of: (aa) the number of days in such Determination Period; and (bb) the number of Determination Dates that would occur in one calendar year; and
- (b) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Periodic Distribution Date (or, if none, the Return Accrual Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

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

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

#### 6.4 Cessation of Profit Entitlement

No further amounts will be payable on any Certificate from and including the Scheduled Dissolution Date or, as the case may be, the relevant Dissolution Date, as a result of the failure of SIB to pay the relevant Exercise Price and enter into one or more sale agreements in accordance with the terms of the Purchase Undertaking or the Sale Undertaking, as the case may be, unless default is made in the payment of the relevant Dissolution Amount in which case Periodic Distribution Amounts will continue to accrue in respect of the Certificates in the manner provided in this Condition.

## 7. FLOATING PERIODIC DISTRIBUTION PROVISIONS

### 7.1 Application

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

### 7.2 Periodic Distribution Amount

Subject to Condition 4.2 and 8 and unless otherwise specified in the applicable Final Terms, the Trustee shall distribute to holders *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account, a distribution in relation to the Certificates on either:

- (a) the Specified Periodic Distribution Date(s) in each year specified in the applicable Final Terms;

or

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

In relation to each Periodic Distribution Date, the distribution payable will be equal to the Periodic Distribution Amount payable in respect of the Return Accumulation Period ending immediately before that Periodic Distribution Date.

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

- (a) in any case where Specified Periods are specified in accordance with Condition 7.2(b) above, the Floating Rate Convention, such Periodic Distribution Date: (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis; or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month in which event: (i) such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day, and (ii) each subsequent Periodic Distribution Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Periodic Distribution Date occurred; or
- (b) the Following Business Day Convention, such Periodic Distribution Date shall be postponed to the next day which is a Business Day; or
- (c) the Modified Following Business Day Convention, such Periodic Distribution Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day; or
- (d) the Preceding Business Day Convention, such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day.

In these Conditions:

**Business Day** means a day which is both:

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

**TARGET Settlement Day** means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open.

### 7.3 Screen Rate Determination

If Screen Rate Determination is specified in the applicable Final Terms as the manner in which the rate or rates (expressed as a percentage per annum) specified in the applicable Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the applicable Final Terms (the **Rate**) is to be determined, the Rate applicable to the Certificates for each Return Accumulation Period will be determined by the Calculation Agent on the following basis:

- (a) if the Reference Rate specified in the applicable Final Terms is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Periodic Distribution Determination Date;
- (b) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Periodic Distribution Determination Date;
- (c) if, in the case of (a) above, such rate does not appear on that page or, in the case of (b) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
- (d) request each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Periodic Distribution Determination Date to prime banks in the London or Eurozone interbank market, as the case may be, in an amount that is representative for a single transaction in that market at that time; and
- (e) determine the arithmetic mean of such quotations; and
- (f) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates quoted by major banks in the principal financial centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the principal financial centre of the Specified Currency) on the first day of the relevant Return Accumulation Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Return Accumulation Period and in an amount that is representative for a single transaction in that market at that time,

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

In this Condition the following expressions have the following meanings:

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

**Reference Rate** means one of the following benchmark rates (as specified in the applicable Final Terms) in respect of the currency and period specified in the applicable Final Terms:

- (a) London interbank offered rate (**LIBOR**);

- (b) Euro-Zone interbank offered rate (**EURIBOR**);
- (c) Shanghai interbank offered rate (**SHIBOR**);
- (d) Hong Kong interbank offered rate (**HIBOR**);
- (e) Emirates interbank offered rate (**EIBOR**);
- (f) Singapore interbank offered rate (**SIBOR**); and
- (g) Saudi Arabia interbank offered rate (**SAIBOR**)

**Relevant Screen Page** means the page, section or other part of a particular information service specified as the Relevant Screen Page in the applicable Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate.

#### 7.4 Cessation of Profit Entitlement

No further amounts will be payable on any Certificate from and including the Scheduled Dissolution Date or, as the case may be, the relevant Dissolution Date, as a result of the failure of SIB to pay the relevant Exercise Price and enter into one or more sale agreements in accordance with the terms of the Purchase Undertaking or the Sale Undertaking, as the case may be, unless default is made in the payment of the relevant Dissolution Amount in which case Periodic Distribution Amounts will continue to accrue in respect of the Certificates in the manner provided in this Condition.

#### 7.5 Calculation of Periodic Distribution Amount

The Calculation Agent will, as soon as practicable after the time at which the Rate is to be determined in relation to each Return Accumulation Period, calculate the Periodic Distribution Amount payable in respect of each Certificate for such Return Accumulation Period. The Periodic Distribution Amount will be calculated by applying the Rate applicable to the relevant Return Accumulation Period to:

- (a) in the case of Certificates which are represented by a Global Certificate, the aggregate outstanding face amount of the Certificates represented by such Global Certificate; or
- (b) in the case of Certificates in definitive form, the Calculation Amount;

and, in each case, multiplying the product by the relevant Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards). Where the Specified Denomination of a Certificate in definitive form is a multiple of the Calculation Amount, the Periodic Distribution Amount payable in respect of such Certificate shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

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

- (a) if “**Actual/Actual (ISDA)**” or “**Actual/Actual**” is specified in the applicable Final Terms, the actual number of days in the Return Accumulation Period divided by 365 (or, if any portion of that Return Accumulation Period falls in a leap year, the sum of (1) the actual number of days in that portion of the Return Accumulation Period falling in a leap year divided by 366 and (2) the actual number of days in that portion of the Return Accumulation Period falling in a non-leap year divided by 365);

- (b) if “**Actual/365 (Fixed)**” is specified in the applicable Final Terms, the actual number of days in the Return Accumulation Period divided by 365;
- (c) if “**Actual/365 (Sterling)**” is specified in the applicable Final Terms, the actual number of days in the Return Accumulation Period divided by 365 or, in the case of a Periodic Distribution Date falling in a leap year, 366;
- (d) if “**Actual/360**” is specified in the applicable Final Terms, the actual number of days in the Return Accumulation Period divided by 360;
- (e) if “**30/360**” “**360/360**” or “**Bond Basis**” is specified in the applicable Final Terms, the number of days in the Return Accumulation Period divided by 360, calculated on a formula basis as follows:

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Return Accumulation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Return Accumulation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

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

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

- (f) if “**30E/360**” or “**Eurobond Basis**” is specified in the applicable Final Terms, the number of days in the Return Accumulation Period divided by 360, calculated on a formula basis as follows:

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Return Accumulation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Return Accumulation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

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

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

- (g) if “**30E/360 (ISDA)**” is specified in the applicable Final Terms, the number of days in the Return Accumulation Period divided by 360, calculated on a formula basis as follows:

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Return Accumulation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Return Accumulation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

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

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

## 7.6 Calculation of Other Amounts

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

## 7.7 Publication

The Calculation Agent will cause each Rate and Periodic Distribution Amount determined by it, together with the relevant Periodic Distribution Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Trustee, SIB, the Delegate and the Paying Agents and, if listed, the Irish Stock Exchange as soon as practicable after such determination but (in the case of each Rate, Periodic Distribution Amount and Periodic Distribution Date) in any event not later than the first day of the relevant Return Accumulation Period. Notice thereof shall also promptly be given to the Certificateholders. The Calculation Agent will be entitled to recalculate any Periodic Distribution Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Return Accumulation Period. If the Calculation Amount is less than the minimum Specified Denomination, the Calculation Agent shall not be obliged to publish each Periodic Distribution Amount but instead may publish only the Calculation Amount and the Periodic Distribution Amount in respect of a Certificate having the minimum Specified Denomination.

## 7.8 Notifications, etc. to be final

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

## 8 PAYMENT

### 8.1 Payments in respect of the Certificates

Subject to Condition 8.2, payment of any Dissolution Amount and any Periodic Distribution Amount will be made by transfer to the registered account of each Certificateholder. Payments of any Dissolution Amount will only be made against surrender of the relevant Certificate at the specified office of any of the Paying Agents. Each Dissolution Amount and each Periodic Distribution Amount will be paid to the holder shown on the Register at the close of business on the relevant Record Date.

For the purposes of this Condition:

- (a) **Dissolution Amount** means, as appropriate, the Final Dissolution Amount, the Early Dissolution Amount (Tax), the Optional Dissolution Amount (Call), the Optional Dissolution Amount (Certificateholder Put), the Dissolution Amount for the purposes of Condition 14 or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the applicable Final Terms;
- (b) **Payment Business Day** means:
  - (i) in the case where presentation and surrender of a definitive Certificate is required before payment can be made, a day on which banks in the relevant place of surrender of the definitive Certificate are open for presentation and payment of securities and for dealings in foreign currencies; and
  - (ii) in the case of payment by transfer to an account:
    - (aa) if the currency of payment is euro, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
    - (bb) if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the principal financial centre of the currency of payment and in each (if any) Additional Financial Centre;
- (c) a Certificateholder's **registered account** means the account maintained by or on behalf of such Certificateholder with a bank that processes payments in the Specified Currency, details of which appear on the Register at the close of business on the relevant Record Date;
- (d) a Certificateholder's **registered address** means its address appearing on the Register at that time; and
- (e) **Record Date** means: (i) (where the Certificate is represented by a Global Certificate), at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the Periodic Distribution Date,

Scheduled Dissolution Date or Dissolution Date, as the case may be; or (ii) (where the Certificate is in definitive form), in the case of the payment of a Periodic Distribution Amount, the date falling on the fifteenth day before the relevant Periodic Distribution Date and, in the case of the payment of a Dissolution Amount, the date falling two Payment Business Days before the Scheduled Dissolution Date or Dissolution Date, as the case may be.

## **8.2 Payments subject to Applicable Laws**

Payments in respect of Certificates are subject in all cases to: (i) any fiscal or other laws, regulations and directives applicable thereto in any jurisdiction, but without prejudice to the provisions of Condition 11; and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 as amended (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof.

## **8.3 Payment only on a Payment Business Day**

Payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated on the due date for payment or, in the case of a payment of any Dissolution Amount, if later, on the Payment Business Day on which the relevant definitive Certificate is surrendered at the specified office of a Paying Agent.

Certificateholders will not be entitled to any additional payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day or if the relevant Certificateholder is late in surrendering its definitive Certificate (if required to do so).

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

# **9 AGENTS**

## **9.1 Agents of Trustee**

In acting under the Agency Agreement and in connection with the Certificates, the Agents act solely as agents of the Trustee and (to the extent provided therein) the Delegate, and do not assume any obligations towards or relationship of agency or trust for or with any of the Certificateholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

## **9.2 Specified Offices**

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

- (a) there will at all times be a Principal Paying Agent;
- (b) there will at all times be a Registrar;
- (c) if a Calculation Agent (other than the Principal Paying Agent) has been appointed in the applicable Final Terms, there will at all times be a Calculation Agent;

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

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

## 10 CAPITAL DISTRIBUTIONS OF THE TRUST

### 10.1 Scheduled Dissolution

Unless the Certificates are previously redeemed, or purchased and cancelled, in full, the Trustee will redeem each Certificate on the Scheduled Dissolution Date at the Final Dissolution Amount together with any Periodic Distribution Amounts payable. Upon payment in full of such amounts to the Certificateholders, the Trust will terminate, the Certificates shall cease to represent undivided ownership interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

### 10.2 Early Dissolution for Tax Reasons

The Certificates may be redeemed by the Trustee in whole, but not in part:

- (a) at any time (if the Fixed Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable); or
- (b) on any Periodic Distribution Date (if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable),

(such date, the **Tax Dissolution Date**) on giving not less than 30 nor more than 60 days' notice to the Certificateholders in accordance with Condition 17 (which notice shall be irrevocable), at the Early Dissolution Amount (Tax) together with any accrued but unpaid Periodic Distribution Amount, if a Tax Event occurs where **Tax Event** means:

- (a) (1) the Trustee has or will become obliged to pay additional amounts as provided or referred to in Condition 11 as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 11) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first Series; and (2) such obligation cannot be avoided by the Trustee taking reasonable measures available to it; or
- (b) the receipt by the Trustee of notice from SIB that: (1) SIB has or will become obliged to pay additional amounts pursuant to the terms of the Service Agency Agreement, the Purchase Undertaking and/or the Sale Undertaking as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date; and (2) such obligation cannot be avoided by SIB taking reasonable measures available to it,

**provided, however**, that no such notice of redemption shall be given unless an exercise notice has been received by the Trustee from SIB under the Sale Undertaking and no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which (in the case of (a) above) the Trustee would be obliged to pay such additional amounts if a payment in respect of the Certificates were then due or (in the case of (b) above) SIB would be obliged to pay such additional amounts if a payment to the Trustee under the Service Agency Agreement was then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Trustee shall deliver to the Delegate: (i) a certificate signed by one director of the Trustee (in the case of (a) above) or two Authorised Signatories of SIB (in the case of (b) above) stating that the Trustee is entitled to effect such dissolution and redemption and setting forth a statement of facts showing that the conditions precedent in (a) or (b) above to the right of the Trustee so to dissolve have occurred; and (ii) an opinion of independent legal or tax advisers of recognised standing to the effect that the Trustee or SIB, as the case may be, has or will become obliged to pay such additional amounts as a result of such change or amendment. The Delegate shall be entitled to accept (without further investigation) any such certificate and opinion as sufficient evidence thereof in which event it shall be conclusive and binding on the Certificateholders. Upon the expiry of any such notice as is referred to in this Condition 10.2, the Trustee shall be bound to redeem the Certificates at the Early Dissolution Amount (Tax) together with any accrued but unpaid Periodic Distribution Amount and, upon payment in full of such amounts to the Certificateholders, the Trust will terminate, the Certificates shall cease to represent undivided ownership interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

### **10.3 Dissolution at the Option of the Trustee**

If Optional Dissolution (Call) is specified in the applicable Final Terms as being applicable, the Certificates may be redeemed in whole but not in part on any Optional Dissolution Date, which must be a Periodic Distribution Date if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms, at the relevant Optional Dissolution Amount (Call) together with any accrued but unpaid Periodic Distribution Amounts on the Trustee giving not less than 30 nor more than 60 days' notice to the Certificateholders in accordance with Condition 17 (which notice shall be irrevocable and shall oblige the Trustee to redeem the Certificates on the relevant Optional Dissolution Date).

Upon such redemption, the Trust will terminate, the Certificates shall cease to represent undivided ownership interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof; provided, however, that no such notice of redemption shall be given unless the Trustee has received an exercise notice from SIB under the Sale Undertaking.

Optional Dissolution (Call) and Certificateholder Put Option may not both be specified as applicable in the applicable Final Terms.

### **10.4 Dissolution at the option of the Certificateholders**

If Certificateholder Put Option is specified in the applicable Final Terms as being applicable, upon the holder of any Certificate giving to the Trustee in accordance with Condition 17 not less than 15 nor more than 30 days' notice the Trustee will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Certificate on the Certificateholder Put Option Date and at the Optional Dissolution Amount (Certificateholder Put) together with any accrued but unpaid Periodic Distribution Amounts. Certificates may be redeemed under this Condition 10.4 in any multiple of their lowest Specified Denomination.

To exercise the right to require redemption of this Certificate the holder of this Certificate must, if this Certificate is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of the Registrar at any time during normal business hours of the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from the specified office of the Registrar (a Put Notice) and in which the holder must specify a bank account to which payment is to be made under this Condition 10.4 and the face amount thereof to be redeemed and, if less than the full amount of the Certificates so surrendered is to be redeemed, an address to which a new Certificate in respect of the balance of such Certificate is to be sent subject to and in accordance with the provisions of Condition 2.2.

If this Certificate is represented by a Global Certificate or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Certificate the holder of this Certificate must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on such Certificateholder's instruction by Euroclear, Clearstream, Luxembourg or any depositary for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and if this Certificate is represented by a Global Certificate, at the same time present or procure the presentation of the relevant Global Certificate to the Principal Paying Agent for notation accordingly.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg by a holder of any Certificate pursuant to this Condition 10.4 shall be irrevocable except where, prior to the due date of redemption, a Dissolution Event has occurred and the Certificates are to be redeemed pursuant to Condition 14, in which event such holder, at its option, may elect by notice to the Trustee to withdraw the notice given pursuant to this Condition 10.4.

Certificateholder Put Option and Optional Dissolution (Call) may not both be specified as applicable in the applicable Final Terms.

#### 10.5 **No other Dissolution**

The Trustee shall not be entitled to redeem the Certificates or dissolve the Trust, otherwise than as provided in this Condition, Condition 13 and Condition 14.

#### 10.6 **Cancellations**

All Certificates which are redeemed, and all Certificates purchased by or on behalf of SIB or any of its Subsidiaries and delivered by SIB to the Principal Paying Agent for cancellation, will forthwith be cancelled and accordingly such Certificates may not be held or resold.

#### 10.7 **Dissolution Date**

In these Conditions, the expression **Dissolution Date** means, as the case may be:

- (a) following the occurrence of a Dissolution Event (as defined in Condition 14), the date on which the Certificates are redeemed in accordance with the provisions of Condition 14;
- (b) the date on which the Certificates are redeemed in accordance with the provisions of Condition 10.2;
- (c) any Optional Dissolution Date; or
- (d) any Certificateholder Put Option Date.

## 11 TAXATION

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

- (a) presented for payment (where presentation is required) in a Relevant Jurisdiction; or
- (b) the holder of which is liable for such Taxes in respect of such Certificate by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Certificate; or
- (c) presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Business Day; or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment (where presentation is required) by or on behalf of a Certificateholder who would be able to avoid such withholding or deduction by presenting the relevant Certificate to another Paying Agent in a different Member State of the European Union.

As used in these Conditions:

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

**Relevant Jurisdiction** means: (i) in the case of payments to be made by the Trustee, the Cayman Islands; or (ii) in the case of payments to be made by SIB (acting in any capacity), the United Arab Emirates or any Emirate therein or, in each case, any political subdivision or authority thereof or therein having the power to tax; and

**Taxes** means any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature imposed or levied by or on behalf of any Relevant Jurisdiction.

*The Purchase Undertaking, the Sale Undertaking and the Service Agency Agreement provide that payments and transfers thereunder by SIB, shall be made free and clear of and without withholding or deduction for, or on account of, any present or future Taxes, unless the withholding or deduction of the Taxes is required by law and, in such case, provide for the payment or transfer, as the case may be, by SIB of additional amounts so that the full amount which would otherwise have been due and payable or transferable, as the case may be, is received by the Trustee.*

## 12 PRESCRIPTION

The right to receive distributions in respect of the Certificates will be forfeited unless claimed within a period of 10 years (in the case of Dissolution Amounts) and a period of five years

(in the case of Periodic Distribution Amounts) from the Relevant Date in respect thereof, subject to the provisions of Condition 8.

### **13 PURCHASE AND CANCELLATION OF CERTIFICATES**

#### **13.1 Purchases**

SIB or any of its Subsidiaries may at any time purchase Certificates at any price in the open market or otherwise. Such Certificates may be held, re-sold or, at the option of SIB, surrendered to the Registrar for cancellation in accordance with Condition 13.2.

For the purposes of these Conditions, **Subsidiary** means, in relation to SIB, any entity whose financial statements at any time are required by law or in accordance with provisions of generally accepted accounting principles to be fully consolidated with those of SIB.

#### **13.2 Cancellation of Certificates held by SIB and/or any of its Subsidiaries**

Following any purchase of Certificates by or on behalf of SIB or any of its Subsidiaries pursuant to Condition 13.1, the Sale Undertaking may be exercised by SIB in respect of the transfer to SIB of a Cancellation Interest in the Portfolio with an aggregate Value not greater than the aggregate face amount of the Certificates so purchased against cancellation of such Certificates pursuant to Condition 10.6.

#### **13.3 Dissolution of the Trust upon cancellation of all outstanding Certificates in a Series**

In the event SIB and/or any of its Subsidiaries purchase all the outstanding Certificates in a Series, and all such Certificates are subsequently cancelled by the Trustee following the exercise of SIB's rights under the relevant Sale Undertaking, the relevant Trust will be dissolved and the Certificates shall cease to represent an undivided ownership interest in the relevant Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

### **14 DISSOLUTION EVENTS**

Upon the occurrence and continuation of any of the following events (**Dissolution Events**):

- (a) default is made in the payment of any Dissolution Amount or any Periodic Distribution Amount on the due date for payment thereof and such default continues unremedied for a period of either seven days from the due date of payment in the case of any Periodic Distribution Amount or fourteen days from the due date of payment in the case of any Dissolution Amount; or
- (b) the Trustee fails to perform or observe any of its other duties, obligations or undertakings under the Transaction Documents and (except in any case where, in the opinion of the Delegate, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 28 days following the service by the Delegate of a notice on the Trustee requiring the same to be remedied; or
- (c) an SIB Event (as defined in the Purchase Undertaking) occurs; or
- (d) the Trustee repudiates any Transaction Document or does or causes to be done any act or thing evidencing an intention to repudiate any Transaction Document to which it is a party; or
- (e) at any time it is or will become unlawful or impossible for the Trustee (by way of insolvency or otherwise) to perform or comply with any or all of its obligations under the Transaction Documents to which it is party or any of the obligations of the Trustee

under the Transaction Documents to which it is a party are not or cease to be legal, valid, binding and enforceable; or

- (f) either: (i) the Trustee becomes insolvent or is unable to pay its debts as they fall due; or (ii) an administrator or liquidator of the whole or substantially the whole of the undertaking, assets and revenues of the Trustee is appointed (or application for any such appointment is made and such application is not set aside, discharged or struck out within 21 days); or (iii) the Trustee takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it; or (iv) the Trustee ceases or threatens to cease to carry on all or substantially the whole of its business (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or
- (g) an order or decree is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Trustee; or
- (h) any event occurs which under the laws of the Cayman Islands has an analogous effect to any of the events referred to in paragraph (f) and (g) above,

the Delegate (subject to it being indemnified and/or secured and/or prefunded to its satisfaction), if notified in writing of the occurrence of such Dissolution Event, shall give notice of the occurrence of such Dissolution Event to the holders of Certificates in accordance with Condition 17 with a request to such holders to indicate if they wish the Certificates to be redeemed and the Trust to be dissolved. If so requested in writing by the holders of at least one-fifth of the then aggregate face amount of the Certificates outstanding or if so directed by an Extraordinary Resolution of the holders of the Certificates (each a **Dissolution Request**), the Delegate shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) give notice of the Dissolution Request to the Trustee, SIB and all the holders of the Certificates in accordance with Condition 17 whereupon the Dissolution Amount (specified in the applicable Final Terms) shall be due and payable, together with any accrued but unpaid Periodic Distribution Amounts on the date of such notice. Upon payment in full of such amounts, the Certificates shall be redeemed and the Certificates shall cease to represent undivided ownership interests in the Trust Assets, the Trust will terminate and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

For the purpose of (a) above, amounts shall be considered due in respect of the Certificates (including any amounts calculated as being payable under Condition 6, Condition 7 and Condition 10) notwithstanding that the Trustee has, at the relevant time, insufficient funds or Trust Assets to pay such amounts.

*Under the Purchase Undertaking, an **SIB Event** means:*

- (a) **Non-payment:** *SIB (acting in any capacity) fails to pay any amount payable by it pursuant to any Transaction Document to which it is a party and such failure continues for a period of 14 days of the due date for payment; or*
- (b) **Breach of other obligations:** *SIB (acting in any capacity) defaults in the performance or observance of any of its covenants and/or obligations under or in respect of the Transaction Documents and such default remains unremedied, unless the default is, in the opinion of the Delegate, capable of remedy and is not, in the opinion of the Delegate, remedied within 28 days after written notice of such default shall have been given to SIB by the Delegate **except that** a failure by SIB (acting in its capacity as Service Agent) to perform or observe the obligations set out in Clause 3.1(c), Clause 3.1 (o) and Clause 3.1(p) of the Service Agency Agreement will not constitute an SIB Event; or*

(c) **Cross Acceleration:**

- (i) any Indebtedness of SIB or any of its Material Subsidiaries (or any Guarantee given by any of them in respect of any Indebtedness) is not paid when due or, as the case may be, within any originally applicable grace period; or
- (ii) any such Indebtedness is declared to be or otherwise becomes due and payable prior to its specified maturity (or, in the case of a Guarantee, is called) as a result of an event of default (however described),

provided, however, that it shall not constitute an Event of Default unless the aggregate amount (or its equivalent in U.S. dollars) of all such Indebtedness or Guarantees either alone or when aggregated with all other Indebtedness or Guarantees which shall remain unpaid or unsatisfied or is so declared or becomes due and payable or is called, as the case may be, shall be more than U.S.\$10,000,000 (or its equivalent in any other currency); or

- (d) **Repudiation:** SIB (acting in any capacity) repudiates or challenges the valid, legal, binding and enforceable nature of any or any part of a Transaction Document to which it is a party or does or causes to be done any act or thing evidencing an intention to repudiate or challenge the valid, legal, binding and enforceable nature of any Transaction Document to which it is a party; or
- (e) **Illegality:** at any time it is or will become unlawful for SIB (acting in any capacity) to perform or comply with any or all of its obligations under or in respect of the Transaction Documents or any of the obligations of SIB (acting in any capacity) under the Transaction Documents are not, or cease to be legal, valid, binding and enforceable; or
- (f) **Moratorium:** if SIB for any reason declares a moratorium on the payment of any Indebtedness or in respect of any Guarantee of any Indebtedness given by it; or
- (g) **Failure to take action etc:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order:
  - (i) to enable SIB (acting in any capacity) lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Transaction Documents; or
  - (ii) to ensure that those obligations are legal, valid, binding and enforceable,is not taken, fulfilled or done and, in each case, is incapable of remedy or, if, in the opinion of the Delegate, is capable of remedy, is not, in the opinion of the Delegate, remedied within 14 days after written notice requiring remedy shall have been given to SIB by the Delegate; or
- (h) **Insolvency etc:** if any one of the following events shall occur and be continuing:
  - (i) SIB or any of its Material Subsidiaries takes any corporate action or other steps are taken or legal proceedings are started for its winding-up, nationalisation, dissolution, bankruptcy, administration or reorganisation (whether by way of voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a liquidator, receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of any substantial part or all of its revenues and assets, except for the purposes of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (1) on terms approved by an Extraordinary Resolution of the Certificateholders or (2)

*in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in SIB or another Subsidiary of SIB;*

- (ii) SIB or any of its Material Subsidiaries is (or is deemed by a court or any applicable legislation to be) insolvent or bankrupt or unable to pay all or a material part of its debts as the same fall due, or stops, suspends or threatens to stop or suspend payment of all or a material part of its debts;*
- (iii) SIB or any of its Material Subsidiaries take any action or commences any negotiations or proceedings with a view to (1) the general readjustment or rescheduling of all or a material part of its debts, or (2) any deferment of any of its obligations or (3) making a general assignment or an arrangement or composition or conciliation with or for the benefit of its creditors in respect of all or a material part of its debts; or*
- (iv) SIB or any of its Material Subsidiaries ceases to carry on the whole or a substantial part of its business except for the purposes of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (1) on terms approved by an Extraordinary Resolution of the Certificateholders or (2) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in SIB or another Subsidiary of SIB; or*
- (i) **Creditor's process:** any expropriation, execution, attachment, distress, sequestration or other similar legal process made pursuant to a court order or judgment or arising by virtue of any law or regulation affects the whole or any substantial part of the property of SIB or any of its Material Subsidiaries and is not discharged within 30 days; or*
- (j) **Unsatisfied judgments:** the aggregate amount of all unsatisfied judgments, decrees or orders of courts or other appropriate law enforcement bodies for the payment of money against SIB or any of its Material Subsidiaries in the aggregate exceeds U.S.\$10,000,000 (or the equivalent thereof in any other currency or currencies) and there is a period of 30 days following the entry thereof or, if later, the date therein specified for payment during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed; or*
- (k) **Enforcement of security:** any Security Interest present or future, created or assumed by SIB or any of its Material Subsidiaries in respect of all or a material part of the property, assets or revenues of SIB or any of its Material Subsidiaries, as the case may be, becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person); or*
- (l) **Government action:** by or under the authority of any government or governmental body:
  - (i) the management of SIB or any of its Material Subsidiaries is wholly or partially displaced or the authority of SIB or any of its Material Subsidiaries in the conduct of its business is wholly or partially curtailed; or*
  - (ii) all or a majority of the issued shares of SIB or any of its Material Subsidiaries or the whole or a substantial part of their respective revenues or assets is seized, nationalised, expropriated or compulsorily acquired; or**
- (m) **Analogous event:** any event occurs which has an analogous effect to any of the events referred to in paragraphs (h)(Insolvency etc), (i)(Creditor's process) and (k)(Enforcement of security) (inclusive) above.*

## **15 ENFORCEMENT AND EXERCISE OF RIGHTS**

### **15.1 Enforcement**

Upon the occurrence of a Dissolution Event and the giving of notice of a Dissolution Request to the Trustee by the Delegate, to the extent that the amounts payable in respect of the Certificates have not been paid in full pursuant to Condition 14, the Delegate shall (subject to Condition 15.2 and being indemnified and/or secured and/or prefunded to its satisfaction), take one or more of the following steps:

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

Notwithstanding the foregoing but subject to Condition 15.2, the Delegate may at any time, at its discretion and without notice, take such proceedings and/or other steps as it may think fit against or in relation to each of the Trustee and/or SIB to enforce their respective obligations under the Transaction Documents, these Conditions and the Certificates.

### **15.2 Delegate not obliged to take Action**

The Delegate shall not be bound in any circumstances to take any action to enforce or to realise the Trust Assets or take any action against the Trustee and/or SIB under any Transaction Document unless directed or requested to do so: (a) by an Extraordinary Resolution; or (b) in writing by the holders of at least one-fifth of the then aggregate face amount of the Certificates outstanding, and in either case then only if it shall be indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing provided that the Delegate shall not be liable for the consequences of exercising its discretion or taking any such action and may do so without having regard to the effect of such action on individual Certificateholders.

### **15.3 Direct Enforcement by Certificateholder**

No Certificateholder shall be entitled to proceed directly against the Trustee and/or SIB or provide instructions (not otherwise permitted by the Trust Deed) to the Delegate to proceed against the Trustee and/or SIB under any Transaction Document unless: (a) the Delegate, having become bound to proceed pursuant to Condition 15.2, fails to do so within a reasonable period of becoming so bound and such failure is continuing; and (b) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against any of the Trustee or SIB, as the case may be) holds at least one-fifth of the then aggregate face amount of the Certificates outstanding. Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than pursuant to the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and SIB shall be to enforce their respective obligations under the Transaction Documents.

### **15.4 Limited Recourse**

The foregoing paragraphs in this Condition are subject to this paragraph. After enforcing or realising the Trust Assets and distributing the proceeds of the Trust Assets in accordance with Condition 4.2 and the Trust Deed, the obligations of the Trustee in respect of the Certificates shall be satisfied and no holder of the Certificates may take any further steps against the Trustee, the Delegate or any other person (including any director, shareholder, officer, employee of the Trustee or Delegate) to recover any further sums in respect of the Certificates and the right to receive any sums unpaid shall be extinguished. In particular, no

holder of the Certificates shall be entitled in respect thereof to petition or to take any other steps for the winding-up of SIB Sukuk Company III Limited.

## **16 REPLACEMENT OF DEFINITIVE CERTIFICATES**

Should any definitive Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar (and if the Certificates are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its specified office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Trustee, SIB, the Registrar, the Paying Agent or the Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

## **17 NOTICES**

All notices to Certificateholders will be valid if:

- (a) published in a leading English language daily newspaper having general circulation in the Republic of Ireland (which is expected to be the Irish Times), or published on the website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)) or, if in either case such publication is not practicable, in a leading English language newspaper having general circulation in Europe; or
- (b) mailed to them by first class pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective registered addresses.

The Trustee shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system (if any) by which the Certificates have then been admitted to listing, trading and/or quotation. Any notice shall be deemed to have been given on the day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

Until such time as any definitive Certificates are issued, there may, so long as any Global Certificate representing the Certificates is held on behalf of one or more clearing systems, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to the relevant clearing systems for communication by them to the Certificateholders and, in addition, for so long as any Certificates are listed on a stock exchange or are admitted to trading by another relevant authority and all the requirements of such stock exchange or relevant authority have been complied with, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the Certificateholders on the day after the day on which the said notice was given to the relevant clearing systems.

Notices to be given by any Certificateholder shall be in writing and given by lodging the same with the Principal Paying Agent. Whilst any of the Certificates are represented by a Global Certificate held on behalf of one or more clearing systems, such notice may be given by any holder of a Certificate to the Principal Paying Agent through the clearing system in which its interest in the Certificates is held in such manner as the Principal Paying Agent and the relevant clearing system may approve for this purpose.

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

- 18.1 The Master Trust Deed contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more Eligible Persons (as defined in the Master Trust Deed) present holding or representing in the aggregate more than 50 per cent. of the then outstanding aggregate face amount of the Certificates, or at any adjourned such meeting one or more Eligible Persons present whatever the outstanding face amount of the Certificates held or represented by him or them, except that any meeting the business of which includes the modification of certain provisions of the Certificates (including modifying the Scheduled Dissolution Date, reducing or cancelling any amount payable in respect of the Certificates or altering the currency of payment of the Certificates or amending Condition 5 and certain covenants given by SIB in the Transaction Documents), the quorum shall be one or more Eligible Persons present holding or representing not less than two-thirds in the outstanding face amount of the Certificates, or at any adjourned such meeting one or more Eligible Persons present holding or representing not less than one-third in the outstanding face amount of the Certificates. The expression **Extraordinary Resolution** is defined in the Master Trust Deed to mean any of (a) a resolution passed at a meeting duly convened and held by a majority consisting of not less than 75 per cent. of the votes cast, (b) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates or (c) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Delegate) by or on behalf of not less than 75 per cent. in face amount of the Certificates for the time being outstanding.
- 18.2 The Delegate may agree, without the consent or sanction of the Certificateholders, to any modification (other than in respect of a Reserved Matter) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement, or determine, without any such consent or sanction as aforesaid, that any Dissolution Event or an event which, with the giving of notice, lapse of time, determination of materiality or fulfilment of any other applicable condition (or any combination of the foregoing), would constitute a Dissolution Event shall not be treated as such if, in the opinion of the Delegate, (a) such modification is of a formal, minor or technical nature, (b) such modification is made to correct a manifest error or (c) such modification, waiver, authorisation or determination is not, in the opinion of the Delegate, materially prejudicial to the interests of the Certificateholders. No such direction or request will affect a previous consent, waiver, authorisation or determination.
- 18.3 In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Delegate shall have regard to the general interests of the Certificateholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof) and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Delegate or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders.
- 18.4 Any modification, abrogation, waiver, authorisation or determination shall be binding on all the Certificateholders and shall be notified to the Certificateholders as soon as practicable thereafter in accordance with Condition 17.

## **19 INDEMNIFICATION AND LIABILITY OF THE DELEGATE AND THE TRUSTEE**

- 19.1 The Trust Deed contains provisions for the indemnification of each of the Delegate and the Trustee in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction as well as provisions entitling the Delegate to be paid its costs and expenses in priority to the claims of the Certificateholders. In particular, in connection with the exercise of certain rights arising after the occurrence of a Dissolution Event in respect of the Trust Assets, the Delegate shall not be required to take any action unless directed to do so in accordance with Condition 15.2.
- 19.2 Neither the Delegate nor the Trustee makes any representation or assumes any responsibility for the validity, sufficiency or enforceability of the obligations of SIB under the Transaction Documents, and the Delegate and the Trustee shall not under any circumstances have any liability or be obliged to account to the Certificateholders in respect of any payments which should have been made by SIB but are not so made and shall not in any circumstances have any liability arising from or in relation to the Trust Assets other than as expressly provided in these Conditions or in the Trust Deed.
- 19.3 Each of the Trustee and the Delegate is exempted from:
- (a) any liability in respect of any loss or theft of the Trust Assets or any cash;
  - (b) any obligation to insure the Trust Assets or any cash;
  - (c) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depositary or clearing system or are registered in the name of the Trustee or its nominee, unless such loss or theft arises as a result of gross negligence, wilful default or fraud by the Trustee or the Delegate, as the case may be.
- 19.4 The Trust Deed also contains provisions pursuant to which the Delegate is entitled, *inter alia*:
- (a) to enter into business transactions with SIB and/or any of its Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to SIB and/or any of its Subsidiaries;
  - (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Certificateholders; and
  - (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

## **20. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

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

## **21. GOVERNING LAW AND DISPUTE RESOLUTION**

- 21.1 The Trust Deed, the Certificates and these Conditions (including the remaining provisions of this Condition 21) and any non-contractual obligations arising out of or in connection with the Trust Deed, the Certificates and these Conditions are governed by, and shall be construed in accordance with, English law.

- 21.2 Subject to Condition 21.3 to Condition 22.6, any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Trust Deed, the Certificates and these Conditions (including any dispute as to their existence, validity, interpretation, performance, breach or termination of the Trust Deed, the Certificates and these Conditions or the consequences of the nullity of any of them or a dispute relating to any non-contractual obligations arising out of or in connection with them) (a **Dispute**) shall be referred to and finally resolved by arbitration under the LCIA Arbitration Rules (the **Rules**), which Rules (as amended from time to time) are incorporated by reference into this Condition. For these purposes:
- (a) the seat of arbitration shall be London;
  - (b) there shall be three arbitrators, each of whom shall be disinterested in the arbitration, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions; and
  - (c) the language of the arbitration shall be English.
- 21.3 Notwithstanding Condition 21.2 above, the Delegate (or, but only where permitted to take action in accordance with the terms of the Trust Deed, any Certificateholder) may, in the alternative, and at its sole discretion, by notice in writing to the Trustee require that a Dispute be heard by a court of law.
- 21.4 The notice described in Condition 21.3 above may be given not later than 28 days after service of a Request for Arbitration (as defined in the Rules).
- 21.5 If the Delegate gives notice pursuant to Clause 21.3, the Dispute to which such notice refers shall be determined in accordance with Condition 21.6 and if any arbitration commenced under Condition 21.2 in respect of that Dispute, the following shall apply:
- (a) the arbitration will be terminated;
  - (b) with the exception of the Delegate (whose costs will be borne by the Trustee, failing which SIB), each of the parties to the terminated arbitration will bear its own costs in relation thereto;
  - (c) if any notice pursuant to Condition 21.3 is given after service of any Request for Arbitration in respect of any Dispute, the Trustee must promptly give notice to the LCIA Court and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA Court, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:
    - (a) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;
    - (b) his entitlement to be paid his proper fees and disbursements; and
    - (c) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.
- 21.6 In the event that a notice pursuant to Condition 21.3 is issued, the following provisions shall apply:
- (a) subject to paragraph (c) below, the courts of England shall have exclusive jurisdiction to settle any Dispute and each of the Trustee and SIB submits to the exclusive jurisdiction of such courts;

- (b) each of the Trustee and SIB agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary;
  - (c) this Condition 21.6 is for the benefit of the Delegate and the Certificateholders only. As a result, and notwithstanding paragraph (a) above, the Trustee, the Delegate and any Certificateholder (where permitted so to do) may bring proceedings in respect of to a Dispute (**Proceedings**) in any other courts with jurisdiction. To the extent allowed by law, the Trustee, the Delegate and the Certificateholders may take concurrent Proceedings in any number of jurisdictions.
- 21.7 Each of the Trustee and SIB has in the Trust Deed appointed TMF Corporate Services Limited at its registered office at Pellipar House, 1st Floor, 9 Cloak Lane, London EC4R 2RU as its agent for service of process and has undertaken that, in the event of TMF Corporate Services Limited ceasing so to act or ceasing to be registered in England, it will appoint another person approved by the Delegate as its agent for service of process in England in respect of any Proceedings or Disputes. Nothing herein shall affect the right to serve proceedings in any matter permitted by law.
- 21.8 Under the Trust Deed, SIB has agreed that, to the extent that it may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and all other legal proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or its assets or revenues, it will not claim and has irrevocably and unconditionally waived such immunity in relation to any Proceedings or Disputes. Further, SIB has irrevocably and unconditionally consented to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any Proceedings or Disputes.
- 21.9 Each of the Trustee, the Delegate and SIB has agreed in the Trust Deed that if any arbitration is commenced in relation to a Dispute and/or any Proceedings are brought by or on behalf of a party under the Trust Deed, it will:
- (a) not claim interest under, or in connection with, such arbitration and/or Proceedings; and
  - (b) to the fullest extent permitted by law, waive all and any entitlement it may have to interest awarded in its favour by an arbitrator as a result of such arbitration and/or by a court as a result of such Proceedings.

## **USE OF PROCEEDS**

The net proceeds of each Series issued will be paid by the Trustee (as Purchaser) to SIB (as Seller) in consideration for the purchase from the Seller of all of its rights, title, interests, benefits and entitlements in, to and under the relevant Initial Portfolio.

## DESCRIPTION OF THE TRUSTEE

SIB Sukuk Company III Limited (the **Trustee**), an exempted company incorporated in the Cayman Islands with limited liability, was incorporated on 11 March 2013 under the Companies Law (2012 Revision) of the Cayman Islands with company registration number 276136. The registered office of the Trustee is at the offices of MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman, KY1-1102 Cayman Islands and the telephone number of the registered office is +001 345 945 7099.

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

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

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

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

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

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

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

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

## Financial Statements

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

## Directors of the Trustee

The directors of the Trustee are as follows:

<u>Name</u>	<u>Principal Occupation</u>
Andrew Millar	Senior Vice President at Maples Fund Services (Middle East) Limited
Cleveland Stewart	Senior Vice President at MaplesFS Limited

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

The business address of each of the Trustee's directors is P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102 Cayman Islands.

There are no potential conflicts of interests between the duties of the directors listed above and their private interests and other duties.

## The Administrator

MaplesFS Limited will also act as the administrator of the Trustee (in such capacity, the **Corporate Administrator**). The office of the Corporate Administrator will serve as the general business office of the Trustee. Through the office, and pursuant to the terms of a Corporate Administration Agreement to be entered into between the Trustee and the Corporate Administrator (the **Corporate Administration Agreement**), the Corporate Administrator will perform in the Cayman Islands or such other jurisdiction as may be agreed by the parties from time to time various management functions on behalf of the Trustee, including the provision of registered office facilities to the Trustee and the provision of certain clerical, administrative and other services until termination of the Corporate Administration Agreement. In consideration of the foregoing, the Corporate Administrator will receive various fees payable by the Trustee at rates agreed upon from time to time, plus expenses. The terms of the Corporate Administration Agreement provide that either the Trustee or the Corporate Administrator may terminate the Corporate Administration Agreement by giving at least 30 days' notice to the other party at any time within 12 months of the happening of any of certain stated events, including any breach by the other party of its obligations under the Corporate Administration Agreement. In addition, the Corporate Administration Agreement provides that either party shall be entitled to terminate the Corporate Administration Agreement by giving at least three months' notice in writing to the other party with a copy to any applicable rating agency. The Trustee and the Corporate Administrator will also enter into a registered office agreement for provision of registered office facilities to the Trustee.

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

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

## DESCRIPTION OF SHARJAH ISLAMIC BANK PJSC

### Overview

Sharjah Islamic Bank PJSC (**SIB**) was originally incorporated as a commercial bank in 1975 as National Bank of Sharjah, under an Emiri decree issued by H.H. Sheikh Dr. Sultan Bin Mohammed Al Qassimi, Member of the UAE Supreme Council, and Ruler of Sharjah. SIB was registered as a Public Joint Stock Company on 3 April 1976 under registration number 12088.

On 18 March 2001, a decision was made by SIB's shareholders to change SIB's status from a conventional bank to an Islamic bank, thereby undertaking to perform all of its banking activities in compliance with *Shari'a* rules and regulations. The conversion process was completed on 30 June 2002, making SIB the first bank in the world to convert fully from a conventional banking system to an Islamic banking system. In 2005, SIB's name was changed from National Bank of Sharjah to Sharjah Islamic Bank.

During the conversion process, SIB formed a strategic alliance with Kuwait Finance House (**KFH**), under which KFH acquired a 20 per cent. shareholding in SIB from the Government of Sharjah (the **Government**). KFH, which is based in Kuwait, is one of the largest Islamic financial institutions in the world. Through the alliance with KFH, SIB has benefited from KFH's product expertise, as well as increasing its funding base.

SIB is a publicly listed company whose shares are listed on the Abu Dhabi Securities Market. As at 31 December 2012, SIB had 2,425,500,000 shares outstanding held by 3,079 shareholders of record, with a total issued and paid up capital (equal to that authorised) of AED 2,425,500,000, and a market capitalisation of AED 2,231,460,000. As at 31 December 2012, the Government and KFH owned 31.3 per cent. and 20 per cent. of SIB respectively. Other than the Government and KFH, no shareholder held more than 3 per cent. of the shares of SIB as at 31 December 2012.

In 2008, SIB carried out a successful rights offering and bonus issue to its shareholders which increased the paid-up capital of SIB from AED 1.1 billion to AED 2.2 billion. Between 2009 and 2010, bonus shares were given to SIB's shareholders that has led to the paid up capital being increased to its present level of AED 2,425,500,000.

SIB had total assets of AED 18.32 billion and AED 17.73 billion as at 31 December 2012 and 31 December 2011 respectively. SIB had shareholders' funds of AED 4.44 billion and AED 4.41 billion for the years ended 31 December 2012 and 2011 respectively. For the purposes of reporting its risk-weighted assets in accordance with Basel II, SIB had Tier 1 capital of AED 4.47 billion and AED 4.44 billion and lower Tier 2 capital of AED 71.5 million and AED 69.3 million as at 31 December 2012 and 31 December 2011 respectively. SIB's net profit for the year ended 31 December 2012 was AED 272.00 million and consequently AED 20.88 million (8.3 per cent.) higher as compared to the net profit of AED 251.12 million for the year ended 31 December 2011.

SIB is one of the leading Islamic banks in the UAE, providing a range of retail banking, corporate banking and investment banking services, in compliance with *Shari'a* rules and regulations. As at the date of this Base Prospectus, SIB has 26 branches in four of the seven emirates, namely Sharjah, Dubai, Abu Dhabi and Fujairah. SIB was awarded the Shaikh Khalifa Excellence Award – Gold in 2012 and the Dubai Human Development Award in 2011.

### General

SIB has a rating of BBB+ (Stable Outlook) from Standard & Poor's Credit Market Services Europe Limited and a rating of BBB+ (Stable Outlook) from Fitch Ratings Ltd.

SIB operates in the UAE under a banking licence issued by the UAE Central Bank. The registered address of SIB is P.O. Box 4, Sharjah, UAE and the telephone number of the registered office is +971 6 599 8888.

## Strategy

SIB's vision is, "to be the bank of choice, delivering creative solutions based on Islamic principles of partnership, trust, and fairness for all". In order to achieve this vision, SIB's primary strategic objectives are to:

- maximise value for SIB's shareholders;
- maintain a conservative attitude to risk;
- provide exceptional customer service; and
- continue to build a strong brand.

The following strategic priorities have therefore been developed to accomplish these objectives.

### ***Expand its Islamic Banking Activities***

Islamic banking is one of the fastest growing sectors in the finance industry and has been defined in recent years not only by strong demand but also by increasing levels of sophistication and product diversification. SIB believes that this growth presents significant opportunities and intends to continue to develop effective and innovative *Shari'a* compliant banking products and services to offer to retail and corporate clients.

### ***Pursue Expansion in the UAE and internationally***

SIB plans to expand its share of the retail and corporate banking market in the UAE, both within and outside of Sharjah. As part of its plan to fulfil this growth strategy, SIB expects to add seven strategically located branches to its retail network by the end of 2013-14. Five of the new branches are intended to be located in industrial and free zones (including the Jebel Ali Free Zone, Dubai Investment Park and Mussafah Industrial Area) in Dubai and Abu Dhabi, in order to cater to small and medium sized businesses and retail customers, with the other two intended to be located in Ras Al Khaimah and Ajman.

SIB forecasts a growth in its retail customer base of 10 per cent. annually over the next three years and 15 per cent. annual growth in respect of its corporate business. SIB also intends to expand its small and medium enterprise business by 30 per cent. per annum. SIB expects to achieve this growth through the introduction of new products to appeal to both corporate and retail customers (see, in particular, "*Activities of SIB – Retail Banking Group – Retail Positioning*" below).

SIB expects this growth to take place in the domestic market, focusing on the areas of Sharjah, Abu Dhabi, Al Ain, Dubai and industrial free zones including Jebel Ali Free Zone in Dubai and Hamriya Free Zone in Sharjah. SIB is targeting a number of trade sectors including manufacturing, pharmaceuticals, oil, contracting and shipping. SIB believes that it will benefit from increasing inward investment of capital from other areas of the GCC during 2013 as a result of the relative stability of the Sharjah and UAE economies.

Whilst SIB does not plan to establish an overseas branch network, its management monitors the market landscape closely looking for specific expansion opportunities. Any expansion overseas will likely occur through joint ventures and partnerships, with SIB seeking to capitalise on its Islamic credentials and expertise. The Qatari market is one such area in which SIB's management believes that cautious expansion could be feasible as a result of the recent ruling in Qatar prohibiting conventional banks from providing certain Islamic finance products and services. SIB also views the Turkish market as potentially viable for expansion, either through participation in syndicated transactions and possible expansion through the establishment of representative offices.

### ***Maintain a conservative attitude to risk***

As an Islamic institution, SIB maintains strict *Shari'a* controls over its business and processes. These rigorous controls have resulted in SIB applying a conservative attitude towards risk, emphasising the need to maintain high levels of liquidity and capital adequacy. The result of this attitude is reflected in the fact that SIB was one of only two banks in the UAE not to have its credit rating downgraded during the recent global financial crisis.

By aligning SIB's risk management function with SIB's credit division, SIB has created a risk management architecture that promotes the active management of risk. This risk management architecture combines policies and procedures that have been both developed internally and laid down by the UAE Central Bank as the industry regulator. Reflecting SIB's conservative attitude towards risk and risk management, SIB's internal policies and procedures, including those relating to credit approval, are often more conservative than those of other similar institutions in the UAE banking sector.

Monitoring the risks of SIB's existing investment and financing portfolio is a priority while conservative credit and risk management procedures are applied to all new facilities. By maintaining liquidity levels at a level of approximately 20 per cent., SIB believes that it has substantially mitigated many of the liquidity risks that it faces.

### ***Maintain a strong capital adequacy ratio and low level of non-performing facilities***

SIB has maintained a strong capital adequacy ratio of 34.7 per cent. calculated in accordance with Basel II and has also benefited from relatively low levels of non-performing facilities, with approximately AED 484 million (or 4.5 per cent. of all facilities) classified as non-performing as at 31 December 2012.

### ***Diversify Revenues through its Subsidiaries***

SIB has sought to diversify its revenues through the incorporation of subsidiaries. As at the date of this Base Prospectus, SIB has three subsidiaries whose businesses include the provision of *Shari'a* compliant financial services, investment in the Sharjah hospitality industry and the management of real estate assets. Following its acquisition of the Sharjah National Hotel Corporation, SIB has sought to encourage and support the Sharjah hospitality and tourism industry whilst diversifying its investments and revenues (see also "*Subsidiaries of SIB – Sharjah National Hotel Corporation*").

### **Competitive Strengths**

SIB enjoys a number of key competitive strengths, including the following:

#### ***Strong links to the Government of Sharjah and Government of Sharjah related entities***

As at the date of this Base Prospectus, the Government is SIB's largest shareholder, holding 31.3 per cent. of SIB's share capital. SIB has capitalised on its close ties between itself and its largest shareholder by becoming the Government's effective bank of choice in the UAE. This close relationship has resulted in the Government and its related entities becoming the largest customer group of SIB, being accountable for over AED 4.08 billion, or 38 per cent. of SIB's receivables as at 31 December 2012, as compared to AED 3.76 billion, or 36.1 per cent. of SIB's receivables as at 31 December 2011. Through its strong relationship with the Government, SIB believes that it will benefit from the ongoing inward investment to the emirate of Sharjah through the financing of infrastructure projects.

During the recent global financial crisis, the emirate of Sharjah was less affected than neighbouring emirates, having less exposure to volatile real estate assets. In addition, with Sharjah being a smaller emirate with correspondingly more conservative development plans than some of the other

emirates, the Government is not burdened with high levels of debt. As such, SIB believes that its levels of exposure to the Government should be viewed as a strength, reflecting positively on SIB's reputation amongst Sharjah based retail and corporate clients.

### ***Extensive experience as a conventional bank prior to its conversion to an Islamic Bank***

Prior to its conversion to an Islamic bank in 2002, SIB had over 25 years' experience in the conventional banking market. Unlike other Islamic banks without prior conventional experience, SIB therefore has a deep knowledge and understanding of the needs of both conventional and Islamic banking customers. SIB believes that this knowledge has enabled it to develop its *Shari'a* compliant banking services in a way that appeals to a broader client base than other Islamic banks.

SIB's conventional experience has been responsible for the development of many innovative *Shari'a* compliant banking products that seek to replicate the salient features of their conventional counterparts. SIB's innovations include prepaid Visa cards and Mastercards and zero per cent. profit finance, both of which were the first *Shari'a* compliant examples of these products in the UAE. Through innovations such as these, SIB has been able to bridge the divide between conventional banks and Islamic banks, enabling it to appeal to both Muslim and non-Muslim clients.

### ***Stable funding base***

SIB has a diversified deposit base that includes retail and corporate customers, Government bodies and public sector agencies which, taken together, are regarded by SIB as a relatively stable and a low cost source of funding. Additionally, SIB has seen a movement away from shorter term deposits since 2011. As at 31 December 2012, SIB had AED 8.39 billion and AED 2.95 billion of deposits maturing in less than 3 months and 3 to 12 months respectively, compared with AED 8.71 billion and AED 1.69 billion respectively as at 31 December 2011 (see also "*Risk Management – Liquidity Risk*" below). This increase in 3 to 12 month deposits in 2012 compared to 2011 was primarily due to the way depositors returns were calculated, with higher weighting being assigned to longer tenor deposits. SIB views this shift as positive, with a limited increase in distribution to depositors. SIB had total customer deposits of AED 11.3 billion as at 31 December 2012, representing an increase of AED 0.9 billion (8.7 per cent.) as compared to 31 December 2011 (AED 10.40 billion).

A breakdown of SIB's deposit base by product as at 31 December 2012 and 31 December 2011 is set out below:

<b><u>Product</u></b>	<b><u>31 December 2012</u></b>	<b><u>31 December 2011</u></b>
	<i>(AED millions)</i>	
Current Accounts .....	3,506	3,013
Saving Accounts .....	1,223	914
Watany .....	266	222
Time Deposits .....	6,211	6,097
Margins .....	129	153
<b>Total Customer Deposits .....</b>	<b><u>11,335</u></b>	<b><u>10,399</u></b>

A breakdown of SIB's deposit base by customer sector as at 31 December 2012 and 31 December 2011 is set out below:

<u>Sector</u>	<u>31 December 2012</u>	<u>31 December 2011</u>
	<i>(AED millions)</i>	
Government .....	3,525	3,110
Corporate .....	2,912	2,652
Retail.....	4,897	4,636
<b>Total Customer Deposits .....</b>	<b>11,335</b>	<b>10,399</b>

### ***Diversified distribution channels and accessibility to customers***

SIB distributes its products through a variety of channels which includes its branch network, automated teller machines (**ATMs**), a direct sales force, a call centre, SMS services and internet banking. As at 31 December 2012, SIB had 26 branches in its network, representing an increase of one branch as compared to 31 December 2011.

As at the date of this Base Prospectus, SIB has a nationwide ATM network consisting of 97 ATMs and 20 cash and cheque deposit machines (**CCDM**). SIB's call centre serves over 37,000 customers monthly. Retail internet banking was launched in 2009, with corporate internet banking following in 2010.

By offering a complete range of financial products to its customers, SIB has been able to develop a diverse client base, ranging from low income to high net worth individuals.

SIB also manages to utilise its strong corporate banking relations to cross sell its retail banking products to individuals within the relevant corporates.

### ***Quality of Service***

SIB considers quality of service as being key to maintaining client and customer satisfaction. To this end, in August 2004 SIB established a separate Service Quality and Business Process Engineering Division. This division is part of SIB's Strategic Development Division, which reports directly to the Deputy Chief Executive Officer.

The Service Quality and Business Process Engineering Division conducts service quality assessments in order to maintain compliance with established quality control systems. It carries out quality assurance visits, handles external customer complaints, conducts customer satisfaction surveys and oversees suggestion schemes. Furthermore, the unit regularly assesses SIB's competitive position in the marketplace, as well as recommending business practice improvements.

### ***Strong Islamic banking presence and Shari'a credibility***

Islamic banking is one of the fastest growing sectors in the finance industry and since its conversion to an Islamic bank in 2002, SIB has established a strong market presence in this sector. SIB offers customers a range of full service *Shari'a* compliant banking products to retail and corporate clients. Through its retail branch network, SIB is able to maintain a high visibility, both within and outside of Sharjah, serving to develop SIB's brand for the benefit of its corporate and retail banking businesses.

SIB ensures that each of the products and services that it offers to customers are in conformity with the strict *Shari'a* supervision parameters approved by SIB's *Shari'a* Supervisory Board (**SSB**). Reflecting its commitment to the application of these principles, SIB has established its own *Shari'a* Control Division (**SCD**). The SCD's role is to ensure that *Shari'a* principles are properly applied to

each of SIB's new products and services, thereby maintaining SIB's reputation as a premier Islamic bank. In addition, SIB has appointed Dar Al Shariah LLC as *Shari'a* auditors and advisors to SIB in order to advise SIB (and support the SSB and SCD) on matters of *Shari'a* compliance and to support the development of new Islamic products for SIB.

### ***Experienced Management Team***

SIB's senior management team has extensive experience in the banking industry, both domestically and internationally. See further "*Management of Sharjah Islamic Bank PJSC*".

### ***Skilled and knowledgeable workforce***

Upon joining SIB, all new employees are required to attend a dedicated orientation programme which provides them with a comprehensive overview of each of SIB's products and services. In addition to employee initiation programmes, SIB also provides regular training to all of its staff, at each level of seniority. In order to provide more efficient training to its staff, SIB established a dedicated Training and Development Division (**T&D**), which reviews staff performance and identifies areas for improvement. Associates in SIB's branches have specific classroom, e-learning and computer based learning modules designed to improve their knowledge and skills in SIB's products and services, Islamic banking and customer service. This commitment to staff training has enabled SIB to develop a skilled and knowledgeable workforce, which is able to better serve the needs of its customers.

As at the date of this Base Prospectus, T&D has integrated its services with SIB's performance management system. Associates performing below SIB's standards for core or managerial competencies are enrolled in specialised courses designed to address any development issues. More than 90 per cent. of SIB's courses are provided in-house using the services of professional trainers and industry experts.

### ***Strong links with the community***

SIB recognises that in order to achieve its vision and attain sustainable development, it must be an active participant in the community. SIB is committed to contributing to the community and actively promotes its development through various contributions to the UAE Red Crescent (including the establishment of a UAE Red Crescent Society medical center in Sharjah), Sharjah Charity Association and Sharjah Voluntary Work Award. SIB has also partnered with Al Theqa Club For People With Special Needs. SIB also operates blood donation and health and awareness campaigns (including sponsoring the Pink Caravan that looks to create awareness about Breast Cancer in the UAE), and is involved with various community projects during Ramadan (the Islamic month of fasting). Through these initiatives, SIB has been able to increase the visibility and strength of its brand, thereby promoting growth.

## **Activities of SIB**

### ***Key Products***

SIB offers a number of *Shari'a* compliant products across its business divisions, including but not limited to the following:

- *Murabaha* – a sale contract whereby SIB sells an item to a customer at a pre-agreed selling price which includes a pre-agreed mark up over its cost. This usually involves deferred payment terms;
- *Ijara* – a form of leasing contract which involves SIB buying and then leasing an item, such as a consumer durable, to a customer for a specified rental over a specific period. The duration of the lease, as well as the basis for rental, are set and agreed in advance. SIB retains ownership of the item throughout the arrangement and the client will pay periodic lease rentals to SIB;

- *Istisna'a* - a sale contract of specified items to be manufactured with an obligation on the part of the manufacturer to deliver them to the customer upon completion; and
- *Musharaka* - a partnership in which SIB participates in financing new or existing projects and shares in the capital and the returns.

SIB's principal business strategy is geared to the further development of its three core business groups, namely:

- Retail Banking Group (**RBG**);
- Corporate Banking Group (**CBG**); and
- Investment Group (**IG**).

The following table, which is based on SIB's audited financial statements for the year ended 31 December 2012, sets out the relative contribution (expressed as a percentage) made by each of SIB's three major divisions, together with its subsidiaries, to SIB's total revenue and total assets during the years ended 31 December 2012 and 31 December 2011.

Division	Year ended 31 December 2012		Year ended 31 December 2011	
	Contribution (%) to SIB's total revenue*	Contribution (%) to SIB's total assets	Contribution (%) to SIB's total revenue*	Contribution (%) to SIB's total assets
Retail Banking Group.....	30	23	34	23
Corporate Banking Group .....	52	36	50	34
Investment Group.....	12	34	10	35
Subsidiaries .....	3	4	3	4

\* Total revenue does not include the cost of funding for sukuk issued by SIB

### **Asset Composition of SIB's Loan Portfolio**

A breakdown of SIB's gross loan portfolio (that is, before taking into account provisions) by industry, as at 31 December 2012 and 31 December 2011, is set out below:

Economic Activity	31 December 2012		31 December 2011	
	(AED millions)	(%)	(AED millions)	(%)
Sovereign .....	4,062	36	3,808	35
Banks and Financial Institutions .....	95	1	88	1
Services .....	823	7	1,047	10
Personal .....	3,237	29	3,044	28
Manufacturing .....	375	3	263	2
Trade .....	852	8	785	7
Transport and Communications .....	215	2	182	2
Contracting .....	1,573	14	1,651	15
Others (rounding) .....	6	0	1	0
<b>Total Customer Advances .....</b>	<b>11,238</b>	<b>100</b>	<b>10,869</b>	<b>100</b>

### **Retail Banking Group**

The RBG offers a comprehensive range of *Shari'a* compliant Islamic financial products and services to individuals and corporations. The RBG's services, which include conventional Islamic banking, personal finance and financial advisory, are all based on firm Islamic principles. The RBG also operates SIB's Islamic credit card business. SIB has, as at the date of this Base Prospectus,

over 150,000 cards in issue, nearly 50,000 of which being prepaid cards. SIB has become one of the leading prepaid card issuers in the region.

As at the date of this Base Prospectus, SIB maintains a network of 26 full service branches located across the UAE with 20 branches in the emirate of Sharjah, three branches in Dubai and one branch in each of Abu Dhabi, Fujairah and Al Ain. SIB plans to expand its branch network to 33 branches (through the addition of seven new branches to be located in Dubai, Abu Dhabi, Ras Al Khaimah and Ajman) by the end of 2013-14. Concurrent to this expansion programme, SIB has recently completed a refurbishment of all of its existing branches.

One of the core strengths of SIB is its large network of ATMs (which includes cash deposit machines and smart deposit machines) in the UAE, with 97 ATMs, spread across each of the emirates, as at the date of this Base Prospectus. SIB is planning to strengthen its current network by increasing the number of its CCDMs, as well as acquiring additional off-site ATMs, to complement the expansion of its branch network.

SIB also has a dedicated "Priority Banking" division (or "Al Awlawiya"), with boutiques and lounges in key branches to cater to the needs of high net worth customers. High net worth customers are automatically enrolled into the Priority Banking division once certain financial criteria are met.

As at 31 December 2012, SIB maintained current accounts for over 21,000 customers, representing an increase of approximately 15 per cent. as compared to the year ended 31 December 2011.

### ***Product Development***

The RBG is supported by an experienced and fully dedicated Marketing and Business Development (**MBD**) team that consists of marketing, communications, branding and product teams. The MBD team focuses on product development intended to meet the needs of SIB's customers. Some of SIB's core and recently launched products include:

- **Prepaid Cards**

Launched in 2008 under six themes targeted to different customer segments, SIB's prepaid cards were the first Islamic prepaid cards in the GCC. These prepaid cards (originally Visa cards and, since 2011, Mastercards) have been popular with customers who would not typically be able to afford a standard bank account. SIB's prepaid cards have also been popular with students who can have an amount regularly credited to their card. Once an amount has been credited, prepaid cards can be used at ATMs to withdraw cash or for purchases directly at points of sale. SIB's prepaid card tree was complemented by the "National Day" Card that carried the UAE flag with the number "40" to mark the 40th National Day.

More recently, SIB has expanded its prepaid cards portfolio by introducing a "COOP Card" co-branded card in conjunction with the Sharjah Cooperative Society (**SCS**) hypermarket chain. Issued in two product variations, Gold and Silver, the award winning COOP Card was launched on April 2012 and offers its cardholders market leading rebates of up to 15 per cent. on their purchases in SCS. Nearly 30,000 cards were booked within 3 months of the launch and another batch of 10,000 cards are expected to be booked by the end of 2013. SIB's prepaid cards portfolio is a core product of the RBG and SIB is continuously working on plans for strategic partnerships in order to build its portfolio of prepaid cards.

- **Education Finance**

SIB has partnered with American University in Sharjah (**AUS**) and Sharjah University (**SU**) to finance students' tuition fees. The scheme was launched with a relaxed credit policy and subsidised profit rates funded by AUS and SU.

- **Medical Finance**

SIB has also partnered with University Hospital (**UH**) and University Dental Hospital (**UDH**) in the emirate of Sharjah, to offer medical services finance at subsidised profit rates funded by UH and UDH.

- **Retail Land Finance**

This product provides finance to the end-buyers of the Al Hoshi real estate project in Sharjah. While this product is currently limited to the Al Hoshi project, SIB plans to roll this financing product out to additional real estate projects in the UAE (subject to favourable market conditions).

In addition, due to the success of Al Hoshi land finance, SIB plans to launch the Retail Land Finance product to all individual customers, who will be able to enjoy longer term and higher principal (capital amount) finance.

- **Zero per cent. Profit Finance**

This innovative Islamic financing product was the first of its kind in the GCC region which was made available to corporate and retail customers. With this scheme, customers can perform *Umrah* and pay over a year, with no additional profit or fees. SIB has partnered with nearly a dozen major *Haj* and *Umrah* service providers.

- **Tawfeeq (debt transfers)**

This product enables SIB's clients to transfer their outstanding debts from conventional banks to SIB. Tawfeeq was launched at attractive profit rates and long repayment tenures with free processing fees.

### ***Retail Positioning***

Establishing SIB's brand as a leading retail bank has been a long standing strategic objective of SIB. In recent years, this strategy has been implemented through the following initiatives:

- **Double Salary Promotion**

A low profit rate financing promotion coupled with an opportunity for customers to win double their salaries, aimed at those customers who obtain such financing and make salary transfers through SIB.

- **Rate Crash Promotion**

Low profit rate financing on key finance products. This promotion offered extremely low profit rates that yielded high customer demand and produced profitable portfolios.

- ***Eidi'a* on Us Promotion**

Leveraging on the holy month of *Ramadan* and *Eid Al Adha*, this promotion offered attractive profit rates on financing together with cash *Eidi'a* as a percentage of the finance amount.

- **Win it Daily Promotion**

A card usage campaign for the COOP Card incentivising customers to use their COOP Cards by entering them in a draw to win AED 5,000 worth of shopping at SCS stores during the 30 day promotional period.

- **Best Summer Offers**

This promotion offered discounted profit rates on our mass retail products and coincided with the traditional UAE summer holiday period.

SIB plans to expand its retail banking business across the UAE. In particular, SIB intends to develop its presence in the Sharjah retail bank market by, amongst other things, implementing the following measures:

- partnerships with government and quasi-government entities as well as large businesses to acquire their payroll business through competitively priced service packages. SIB is continually evaluating further growing the RBG business through strategic partnerships;
- leveraging existing payroll customers to cross-sell asset products;
- launching a host of innovative products, including a product “Virtual Account”. This virtual account will be managed by the customer through ATMs, CCDMs and Internet Banking;
- increasing its share of the foreign currency exchange market to take advantage of SIB’s expatriate customers;
- segmentation of SIB’s customer base and the development of segment-tailored products and services; and
- increasing the reach of SIB’s marketing through social media such as Facebook and Twitter.

### ***Asset Composition of Retail Financing Portfolio***

Retail loans are governed by strict internal policy parameters which are uniformly and consistently applied to the relevant customer segments and businesses based on the policy lending rules. A breakdown of the retail loan portfolio of SIB by type of customer advance, as at 31 December 2012 and 31 December 2011, is set out below.

<u>Product Type</u>	<u>31 December 2012</u>		<u>31 December 2011</u>	
	<i>(AED millions)</i>	<i>(%)</i>	<i>(AED millions)</i>	<i>(%)</i>
Personal Finance .....	3,080	71	3,093	73
Mortgages .....	1,030	24	899	21
Auto .....	209	5	208	5
Credit Cards .....	35	1	36	1
<b>Total Customer Advances .....</b>	<b>4,354</b>	<b>100</b>	<b>4,326</b>	<b>100</b>

### ***Retail Distribution Channels***

In addition to its retail branch network, SIB’s retail distribution channels include an e-Channel division established in 2005, consisting of a 24-hour call centre and automated phone banking services (**IVR**).

As at the date of this Base Prospectus, SIB’s customers have access to 97 ATMs and 20 CCDMs across the UAE. In addition to SIB’s own ATM network, its customers also have access to thousands of ATMs through the UAE ATM switch network. SIB also has a facility which allows its customers to pay utility bills through IVR and internet banking. SIB’s SMS Banking service offers both push and pull services to customers, and offers e-Statement services to all of its customers for their accounts and credit cards.

SIB also has a secure internet banking platform which is available to both retail and corporate customers, enabling them to retrieve their account balances, make transaction inquiries, pay utility bills, transfer funds, make credit card payments, and request cheques and certificates.

Furthermore, SIB has a telephone banking platform that enables customers to retrieve their account balances, make transaction inquiries, request statements and send applications by fax, pay utility bills, transfer funds, make credit card, Zakat and Sadaqat payments, and activate or block the use of credit cards.

**Corporate Banking Group**

CBG offers a comprehensive suite of products and services geared to meet the financing needs of SIB’s corporate customers, together with the Government and its related entities. CBG caters to clients ranging from small and mid-size corporate entities to public sector organisations and government related entities. CBG provides a range of *Shari’a* compliant products to its customers including:

<u>Corporate Solutions</u>	<u>Trade Services</u>	<u>Cash Management</u>
Short term financing facilities* (Working Capital lines)	Letter of Credit	<ul style="list-style-type: none"> <li>● Account Operations</li> <li>● Liquidity Management</li> </ul>
<ul style="list-style-type: none"> <li>● Murabaha</li> <li>● Wakala</li> </ul>	Letter of Guarantee	
Long term financing facilities*		Transaction Management
<ul style="list-style-type: none"> <li>● Ijarah</li> <li>● Musharaka</li> <li>● Murabaha</li> <li>● Mudaraba</li> </ul>		<ul style="list-style-type: none"> <li>● Payments</li> <li>● Collections</li> </ul>
		Channel Management
		<ul style="list-style-type: none"> <li>● Regular Reporting</li> <li>● Online Banking</li> </ul>

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\* Any acceptable Islamic financing structure could be used for providing customised solutions.

A breakdown of corporate customer advances (excluding Government) as at 31 December 2012 is set out below:

<u>Facility Type</u>	<b>31 December 2012</b>	
	(AED millions)	%
<b><i>Funded</i></b>		
Qard Hassan .....	320	9
Ijara .....	1,438	39
Murabaha .....	846	23
Syndication .....	211	6
Wakala .....	7	0
<b><i>Unfunded</i></b>		
Letters of Credit .....	143	4
Acceptance .....	47	1
Letters of Guarantee .....	649	18
<b>Total Customer Advances .....</b>	<b>3,661</b>	<b>100</b>

SIB's corporate customers are served through teams of professional corporate bankers with in-depth industry knowledge. These corporate bankers are located in Sharjah, Dubai and Abu Dhabi in order to ensure the efficient delivery of corporate banking solutions to clients in those emirates. SIB also has dedicated corporate banks located in free-zones in Sharjah to target corporate clients operating in such free-zones.

The CBG provides customised solutions to customers to meet their objectives in financing, risk management, cash management, investments, foreign exchange, working capital and international banking services. The CBG is supported by sophisticated IT infrastructure, trade finance and treasury expertise. The focus of the CBG is on bilateral financing transactions, whereas all syndicated and international financing transactions are handled by the Investment Banking Division of the Investment Group.

As at 31 December 2012, CBG held financing exposure of approximately AED 6.6 billion, including approximately AED 4 billion of direct Government exposure. As at 31 December 2012 SIB's top 20 depositors constituted AED 4 billion (35 per cent.) of SIB's total deposits, compared to AED 3.8 billion (36.1 per cent.) as at 31 December 2011.

### **The Investment Group**

The IG brings together SIB's wholesale structuring, underwriting, corporate advisory, investment banking, funds, direct equity investments, treasury and financial institution relationship banking functions under one umbrella, to offer a comprehensive investment banking platform.

The IG's key responsibilities include the execution of SIB's corporate business strategy and cash management. The IG's strategy revolves around developing relationships with local and international financial institutions in sourcing financing and investment opportunities whereby SIB's capital can be deployed in the most efficient manner. The IG's strategy involves medium to long term opportunities and seeks to diversify SIB's portfolio across different geographic areas and sectors. Over the last few years, the IG has developed a strong network of financial institutions and investment sources across five continents.

The IG has three business divisions:

#### ***Investment Banking***

The Investment Banking Division (**IBD**) executes SIB's investment and asset diversification strategy. The IBD offers a range of services to its clients, including financial advisory and

debt/equity capital markets and direct investment activities. SIB also participates in syndicated financing transactions through the IBD for clients including Sharjah Electricity and Water Authority, Sharjah Chamber of Commerce and Industries and Sharjah Airport Authority. In addition, the IBD runs SIB's proprietary investment portfolio that includes medium to long term investments in listed and private equity, investment funds, sukuk and real estate portfolio comprising of investment properties and properties held for sale.

The breakdown of SIB's investment assets is set out in the table below as at 31 December 2012.

<u>Instrument Type</u>	<b>Market value</b>	
	<b>at 31 December</b>	<b>Percentage</b>
	<b>2012</b>	
	<i>(AED millions)</i>	<i>(%)</i>
Sukuk .....	615	28
Funds .....	144	7
Direct Investments .....	97	4
Real Estate .....	1,306	60

### **Treasury**

The Treasury Division (**TD**) is responsible for managing SIB's cash flow. The prominent functions of TD are:

- liquidity management under money market operations across different currencies;
- foreign exchange cover operations to handle customer related foreign exchange requirements; and
- arbitrage transactions.

Due to its consistent work in Islamic treasury activities and being a net lender, the TD enjoys a strong reputation in the market.

The TD benefits from relatively large and favourable exposure limits applied in respect of SIB by many GCC financial institutions, allowing the TD to easily meet the funding requirement of SIB. This facilitates growth for SIB as short term liquidity can be made available to SIB from a number of counterparties in the GCC on demand and at very low profit rates. The TD plans and manages SIB's liquidity to ensure that any liquidity risk is minimised and asset liability mismatches are avoided.

The TD actively trades in the following products with its counterparties:

- wakala deposits with/from banks;
- international murabaha (metal based transactions);
- short term placements/borrowings;
- foreign exchange activities;
- Islamic certificate of deposits; and
- reverse murabaha.

For the year ended 31 December 2012, the TD managed an average daily surplus liquidity of approximately AED 2.2 billion, with revenue generated on these funds of approximately AED 16.5 million. During the same period, the TD's fee-based foreign exchange business had a turnover of approximately AED 7.62 billion, generating approximate revenues of AED 4.63 million.

The TD also offers the following Islamic products to its retail, corporate and high net worth customers:

- special fixed deposits – *Shari'a* approved commodity murabaha based fixed deposit transactions structured to offer a pre-agreed profit rate;
- wakala deposits from customers;
- tawfeeq (commodity transactions) – execution of structured commodity transactions (usually metal) to assist clients wishing to change to Islamic banking to pay off their conventional loans. This is mainly done through brokers based in the London Metal Exchange; and
- Forex Investments – trading of foreign currencies to take advantage of positive price movements.

The TD is also working on innovative new Islamic products to meet the requirements of trade finance and retail customers.

### ***Financial Institutions***

The Financial Institutions Department (**FID**) manages all aspects of SIB's relationships with financial institutions and provides support to SIB's operations through the establishment and maintenance of new relationships with leading financial institutions. The FID acts as a primary point of contact for all relationship matters between SIB and its banking counterparts. In addition, the FID ensures that SIB's Nostro accounts cover all geographical areas so as to support SIB's operational and customers' needs.

### **Relationships and Strategic Alliances**

SIB enjoys close relationships with its two major shareholders, the Government and KFH. These shareholders have indicated their long term commitment to SIB and provide various forms of essential support, including by fully subscribing for shares in SIB during the 2008 rights issue. The Government is SIB's single largest customer, with many of the major Sharjah governmental departments being clients of SIB.

SIB also has alliances with other reputable UAE based entities such as Shuaa Capital (**Shuaa**). Shuaa manages an open-ended GCC equity investment fund (Tharwa Islamic Equity Fund) which was launched by SIB in 2005 for customer subscriptions. SIB intends to continue to create new alliances whenever suitable opportunities arise.

### **Subsidiaries of SIB**

As at the date of this Base Prospectus, SIB has three wholly owned and active subsidiaries:

- Sharjah National Hotel Corporation (**SNHC**);
- Sharjah Islamic Finance Services (**SIFS**); and
- ASAS Real Estate (**ASAS**).

### ***Sharjah National Hotel Corporation***

In June 2006, SIB acquired SNHC from the Government. SNHC owns three luxury hotels and resorts: the Marbella Resort; the Holiday International Hotel; and the Khorfakkan Oceanic Beach Hotel (all located in the emirate of Sharjah). SIB's investment in SNHC is in line with SIB's general objective of diversifying its investments. As at the date of this Base Prospectus, SNHC is undertaking a major renovation of its properties and is working to modernise their facilities. The Khorfakkan Oceanic Beach Hotel (**KOBH**) has been renovated into a hotel and spa and is scheduled to be re-opened for occupancy by the end of the second quarter of 2013.

For the year ended 31 December 2012, SNHC generated revenues of AED 34.3 million and net profits of AED 7.3 million compared to AED 34.4 million of revenues and AED 7.3 million of net profits for the year ended 31 December 2011. The stable revenues were due primarily to the costs of the ongoing renovation of KOBH. Once re-opened, revenue generation for SNHC is expected to increase. As at 31 December 2012, SNHC's net assets amounted to AED 274.7 million, compared to AED 267.4 million as at 31 December 2011.

### ***Sharjah Islamic Finance Services***

In June 2006, SIB launched SIFS, to offer its customers and investors a wide range of *Shari'a* compliant trading tools to allocate, select and manage investments and wealth through the Dubai Financial Market (**DFM**) and Abu Dhabi Securities Exchange (**ADX**). SIFS is based in the Al-Ghanem Business Centre at Al-Khan Street, Sharjah, where its offices provide a modern business environment for the benefit of its customers. Like SIB, SIFS also applies strict *Shari'a* principles to all of its processes, practices and products.

For the year ended 31 December 2012, SIFS generated revenues of AED 2.6 million and net profits of AED 6.1 million compared to AED 2.3 million of revenues and a net loss of AED 14.4 million in 2011. The improvement in net profitability was due to reduced expenditure and improved market sentiment in the DFM and ADX. SIFS had net assets of AED 24.7 million as at 31 December 2012, compared to AED 18.6 million of net assets as at 31 December 2011.

### ***ASAS Real Estate***

ASAS formerly existed as a division of SIB, but was incorporated as a subsidiary in 2011. As at the date of this Base Prospectus, ASAS is responsible for the management of SIB's real estate assets, together with the real estate assets of some of SIB's clients, including the Government. ASAS provides property management services, a market which SIB believes is expanding. As such, ASAS has a mandate to expand its business operations to each of the emirates in the UAE. It is expected that ASAS will provide investment opportunities to SIB's customers who seek to achieve returns from investments in UAE real estate assets.

ASAS was incorporated with AED 500 million of capital and since 2011 has been steadily growing its business. ASAS also has plans to expand into other real-estate business areas such as sales and property and facilities development and management. ASAS recently launched the "ASAS Tower" project, a 50+ floor tower and features waterfront apartments and offices with state of the art amenities for modern living. It is planned to be a landmark project in the emirate of Sharjah. The project, valued at AED 575 million, is expected to be completed by the end of 2014. Other projects include the Al Nouf villas development, the Industrial Area 18 land sale and other residential developments in the emirate of Sharjah.

ASAS' standalone financial statements will be available from and for the year ended 2013 onwards. For the year ended 31 December 2012, ASAS generated revenues of AED 19.26 million compared to AED 15.9 million in 2011.

### ***SIB's Competition***

SIB faces competition in all of its principal business areas. In its Retail Banking and Corporate Banking businesses, SIB's principal competitors include both banks that are locally incorporated (conventional and Islamic) as well as certain foreign banks operating in the UAE. As at 31 October 2012, there were 51 banks holding full commercial banking licenses in the UAE, of which 23 were locally incorporated. In the Islamic banking market, SIB's direct competitors include Emirates Islamic Bank, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Dubai Bank, Noor Islamic Bank, Al Hilal Bank and Ajman Bank, all of whom are also incorporated in the UAE.

Despite the relatively high level of competition in the banking sector in the UAE, SIB expects the demand for Islamic banking services will increase in the short to medium term. SIB's objective is

to participate in this growth and to increase its market share, based on its selling skills, service quality standards, strong brand, personalised customer care and continuing product development.

## **Risk Management**

The operations of SIB require continuous management of particular risks or combinations of risks. Risk management is the identification, analysis, evaluation and management of the factors that could adversely affect SIB's resources, operations and financial results. The main risks that concern SIB are credit, operational, market, liquidity, legal, regulatory and currency risks. SIB aims to manage its exposure to these risks conservatively.

In December 2010, SIB's risk management function was further strengthened by the realignment of SIB's Enterprise and Risk Management Division (**ERMD**) and SIB's credit risk division, resulting in the formation of the Risk Management Group (**RMG**). The following divisions within the RMG, report to the Chief Risk Officer (**CRO**), who reports to the Board of Directors:

- Risk Management Division;
- Credit Division;
- Credit & Investment Administration Division;
- Recovery & Legal Affairs; and
- IT Security & Software Quality Assurance.

## **Risk Governance Structure**

Although the ultimate responsibility for SIB's risk management lies with the Board of Directors, SIB's risk governance structure has been designed to support the Board of Directors and its committees in their oversight of the risks that face SIB in the performance of its activities. A key feature of SIB's risk governance structure is the concept of "lines of defence", whereby each of SIB's business groups take responsibility for the risks that they are exposed to.

### *Risk Management Architecture:*

The RMG's basic role is to ensure that SIB's risk is mitigated effectively. SIB's risk architecture is based on a 3-tier approach:

- *Strategic Level*

Risk management functions are performed by the Executive Management and the Board of Directors through vision and strategy.

- *Tactical Level*

Risk management functions are handled by middle management and various units across business lines through risk based decisions.

- *Operational Level*

Risk management functions relating to operational risk are handled through performance measures, internal controls and risk awareness programs, as well as certain procedures and processes that cover all issues relating to other types of risk.

## **Risk Management Division**

The Risk Management Division (**RMD**) serves as an independent appraisal function within the RMG, monitoring the broad spectrum of risks faced by SIB, including credit, liquidity and legal risks,

and examining and evaluating the effectiveness of and compliance with SIB's policies and procedures. The RMD reports to the Board of Directors through the CRO.

In particular, the RMD's responsibilities include:

- formulating appropriate risk management charters, policies and procedures regarding those activities and units which incur significant risk, including business continuity plans. All risk management policies and procedures are approved by the Board of Directors as more particularly described in "*Management of Sharjah Islamic Bank PJSC*";
- providing meaningful direction regarding SIB's overall risk philosophy and appetite, including consideration and acceptability of new or unusual risk, ensuring strict adherence to risk management policies and procedures;
- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure classify and report such information;
- examining and evaluating the quality of the advances portfolio and the credit management process (retail, corporate, real estate financing) in individual units throughout SIB;
- identifying and dealing with special risks associated with any sort of change (including, economic, industry, regulatory and operating);
- overseeing the compliance function and regulatory requirements, including anti-money laundering (**AML**), know your customer (**KYC**) and combating the financing of terrorism; and
- managing and monitoring the implementation of the Basel II Compliance Project.

SIB has a full-time Compliance Officer, whose role is to establish standards of ethics, confidentiality, privacy, KYC policies and other hallmarks of good governance, such as avoidance of conflicts of interest. The Compliance Officer provides training to new and existing staff in respect of these issues.

SIB's Risk Management Policy Framework has been in place since 2004, when it was developed and formulated by the Risk Management team. The Risk Management Policy Framework is reviewed annually and is subject to additional amendments based on the dynamic conditions of the market as well as the strategies and policies of SIB. All of SIB's risk policies and processes are reviewed and approved by the Board of Directors.

Reflecting SIB's conservative attitude to risk, the Risk Management Policy Framework is reviewed by SIB's auditors as well as by regulatory inspectors during their annual examination of SIB. SIB's management believes that SIB's policies and procedures exceed the standards set by international best practice, Basel II directives and UAE Central Bank regulations.

### **Credit Risk**

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and causes SIB to incur a financial loss. SIB is exposed to credit risk through its financing receivables, leased assets, *wakalah* arrangements with financial institutions and investments in sukuk. SIB's primary exposure to credit risk arises through its financing facilities to customers. In addition, SIB is also exposed to off-balance sheet credit risk through contingent liabilities assumed by it.

SIB manages its credit risk exposure through diversification of its financing activities and investments to avoid concentration of risk with individuals or groups of customers in a specific location or business. In addition, SIB manages the credit exposure by evaluating the creditworthiness of each counterparty, establishing the appropriate credit limits, obtaining the security where appropriate and limiting the duration of exposure. In certain cases, SIB may also close out transactions or assign them to other counterparties to mitigate credit risk.

SIB has a risk rating system to provide a consistent framework for risk management. The system assigns ratings as per regulatory guidelines to a wide range of credit recipients from all corporate borrowers. The credit rating system and individual facility assessments are managed in a consistent manner to measure the level of each borrower's credit risk appropriately.

Furthermore, in order to manage credit risk, SIB sets credit policies, procedures and credit limits. SIB's Credit Committee provides the strategic framework for the credit limits, policies and procedures, the approval of specific exposures and work out situations, constant revaluation of the loans portfolio and the sufficiency of provisions. The credit exposure and credit policies are regularly reviewed by the Executive Committee and SIB's Board of Directors. In addition, regular audits of business units and SIB's credit processes are undertaken by internal audit division.

### ***Market Risk***

Market risk is the risk that SIB's income and/or value of a financial instrument will fluctuate because of changes in market prices such as profit rates, foreign exchange rates and market prices of equity. SIB is exposed to market risk through its diverse financial instruments including sukuk, equities, investment funds and foreign currencies. Market risk is managed through market risk limits set out by SIB's Asset and Liability Committee (**ALCO**), which are approved by the Board of Directors.

The market risk limits are monitored independently by RMG on a regular basis, and exceptions, if any are reported to the senior management and ALCO.

In addition to its internal procedure and systems, SIB is required to comply with the guidelines and regulations of the UAE Central Bank, as well as *Shari'a* principles.

### ***Settlement Risk***

SIB's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions SIB mitigates this risk by ensuring that a trade date is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit limits monitoring process. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the ALCO.

All treasury related transactions are undertaken with counterparty banks or institutions where settlement limits are in place.

### ***Foreign Exchange Rate Risk***

The foreign exchange rate risk is managed on the basis of limits determined by the ALCO and a continuous assessment of SIB's open position by Treasury with respect to current and expected exchange rate movements. SIB does not engage in foreign exchange proprietary trading and where necessary matches currency exposures inherent in certain assets with liabilities in the same or correlated currency.

The ALCO has set limits on positions by currency. Positions are closely monitored on a daily basis by ERMD to ensure that the positions are maintained within established limits. In case of any limit exceptions that may arise during the course of regular transactions, ERMD will seek clarification from TD and will also take action to mitigate the exchange rate risks.

The exchange rate of AED against U.S. dollars is pegged since November 1980 and SIB's exposure to foreign exchange rate risk is limited to that extent.

As at 31 December 2012, SIB had the following significant net exposures denominated in foreign currencies:

<u>Currency</u>	<u>Net Position (equivalent AED thousands)</u>	
	<u>2012</u>	<u>2011</u>
U.S. dollar .....	(243,930)	(432,935)
Sterling Pound .....	75	165
Euro .....	38	1,837
Bahrani Dinar .....	7,371	7,418
Qatari Riyal.....	(11)	349
Saudi Riyals .....	755	151
Kuwaiti Dinar.....	37,355	32,558
Omani Riyal .....	15,944	26,540

### **Profit Rate Risk**

Profit rate or pricing risk, comprising market and valuation risks, are managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value. Overall pricing or profit rate risk positions are managed by the ALCO.

SIB is not significantly exposed to the profit rate risk in terms of the re-pricing of its liabilities since primarily, in accordance with Islamic *Shari'a*, SIB does not provide a contractual rate of return to its depositors, other than with respect to certain special fixed deposits.

### **Liquidity Risk**

Liquidity risk is the risk that SIB will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. It includes the risk of the inability to fund assets at appropriate maturities and rates and the inability to liquidate assets at reasonable prices and in an appropriate timeframe and inability to meet obligations as they become due. Liquidity risk can be caused by political uncertainty, market disruptions or credit downgrades which may cause certain sources of funding to diminish.

As at 31 December 2012, SIB's financing receivables to deposit ratio stood at 99.1 per cent. SIB's liquidity is managed actively by the TD. In addition, all liquidity policies and procedures are subject to review and approval by ALCO.

Liquidity in UAE dirhams is available through the sale of U.S. dollar denominated securities and subsequent sale of the U.S. dollar proceeds to the inter-bank market (or to the UAE Central Bank) on a same-day basis if required. Liquidity can be easily switched from U.S. dollars to UAE dirhams and vice versa due to the fixed nature and narrow spread of the foreign exchange peg.

The maturity profile of SIB's assets is set out below for the years ended 31 December 2012 and 2011.

### 31 December 2012

	<i>AED thousands</i>				
	<b>Less than 3 months</b>	<b>3 months to 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Assets</b>					
Cash and balances with banks and financial institutions .....	953,737	829,500	–	–	1,783,237
International murabaha and wakalah with financial institutions .....	1,880,213	492,197	–	–	2,372,410
Financing receivables .....	684,710	283,885	1,770,123	40,164	2,778,882
Ijarah receivable.....	536,249	259,090	2,292,268	4,882,882	7,970,489
Investments securities .....	474,636	35,613	298,683	47,749	856,681
	<b>4,529,545</b>	<b>1,900,285</b>	<b>4,361,074</b>	<b>4,970,795</b>	<b>15,761,699</b>
<b>Liabilities and equity</b>					
Customers' deposits.....	8,384,525	2,950,016	–	–	11,334,541
Due to banks .....	470,190	–	–	–	470,190
Sukuk payable .....	–	–	1,464,457	–	1,464,457
Other liabilities and zakat.....	445,418	28,624	129,101	–	603,143
	<b>9,300,133</b>	<b>2,978,640</b>	<b>1,593,558</b>	<b>–</b>	<b>13,872,331</b>

### 31 December 2011

	<i>AED thousands</i>				
	<b>Less than 3 months</b>	<b>3 months to 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Assets</b>					
Cash and balances with banks and financial institutions.....	1,153,556	616,867	9	–	1,770,432
International murabaha and wakalah with financial institutions .....	1,988,586	352,948	–	–	2,341,534
Financing receivables .....	651,251	131,992	1,572,141	15,304	2,370,688
Ijarah receivable.....	376,846	164,771	2,924,280	4,590,849	8,056,746
Investments securities .....	410,058	91,566	232,912	–	734,536
	<b>4,580,297</b>	<b>1,358,144</b>	<b>4,729,342</b>	<b>4,606,153</b>	<b>15,273,936</b>
<b>Liabilities and equity</b>					
Customers' deposits.....	8,711,235	1,686,695	923	–	10,398,853
Due to banks .....	900,972	–	–	–	900,972
Sukuk payable .....	–	–	1,463,062	–	1,463,062
Other liabilities and zakat.....	366,354	–	197,743	–	564,097
	<b>9,978,561</b>	<b>1,686,695</b>	<b>1,661,728</b>	<b>–</b>	<b>13,326,984</b>

### Equity Price Risk

Equity price risk arises from the change in fair value of equity instruments. SIB manages this risk through diversification of investment in terms of geographical distribution and industry concentration.

## ***Operational Risk***

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal process and methodologies, human error, systems or from external events. Operational risk may arise from a wide variety of causes associated with SIB's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

SIB manages the operational risk through a disciplined application and evaluation of internal controls, appropriate segregation of duties, independent authorisation of transactions and regular, systematic reconciliation and monitoring of transactions. SIB's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to SIB's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

SIB has established a framework of policies and procedures for managing functions / departments / branches which aims to minimise operational loss through a framework requiring all units to identify, assess, control, manage and report risks. The Risk Management Committee continually reviews the policies and procedures, identifies issues and manages operational risk to reduce the likelihood of any operational losses. Where appropriate, SIB mitigates the operational risk by way of insurance.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Internal Audit Division. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of SIB.

In addition, SIB has also established a business continuity planning team which ensures that SIB can continue to service its customers' needs in the event of any major business disruption and to minimise any operational risk.

## ***Legal Risk***

Legal risk is the risk that a customer or counterparty will commence proceedings against SIB. SIB has an internal legal department which is headed by the VP Legal Counsel.

## ***Credit Division***

SIB has a dedicated Credit Division which is responsible for the assessment and evaluation of all matters relating to credit risk. The Credit Division supports and challenges business proposals in accordance with SIB's cautious risk strategy.

The basic functions and responsibilities of the Credit Division are:

- maintaining high quality assets through effective control and management of credit risk, minimising credit losses whilst enhancing returns, thereby, contributing to the overall success of SIB;
- monitoring credit risk through the proper evaluation of credit proposals and facilities by identifying and analysing all potential risk factors associated with requested credit facilities;
- monitoring credit exposure by limiting transactions with specific entities and continually assessing the creditworthiness of SIB's counterparties; and
- managing credit risk exposure through the diversification of lending activities to ensure that all elements of concentration risk are mitigated against.

### ***Credit & Investment Administration Division***

The Credit Administration Division covers all of the administrative activities relating to approved credit proposals. The division ensures that security and collateral documentation is perfected and executed as well as ensuring the safe custody of securities in compliance with internal policies and *Shari'a* principals.

The Investment Administration Division streamlines the IG's back office functions and processes. The division is also responsible for highlighting areas in which SIB's policies are not being complied with as well as ensuring that the conditions and covenants for each of the IG's investment accounts are monitored.

### ***Recovery & Legal Affairs***

The Collections and Recovery Division is primarily responsible for managing SIB's receivables and reducing bad and doubtful debts by minimising potential losses arising from problem facilities. The division effectively and efficiently manages the collection and recovery functions of SIB in order to reduce portfolio losses.

The primary function of the Legal Division is to provide protection to SIB by offering advice on all legal and litigation matters. In addition to the initiation of legal proceedings, the division also negotiates amicable settlements in order to increase SIB's recoveries. The Legal Division also ensures that all internal and external legal reporting requirements are complied with.

### ***IT Security & Software Quality Assurance***

The IT Security Division is an independent assurance function within the RMG that is responsible for monitoring, analysing and responding to information related risks faced by SIB. The division is also responsible for exercising security engineering, managing identity and access as well as evaluating the effectiveness of and compliance with SIB's IT Security policies and procedures.

Software Quality Assurance at SIB involves the entire software development process. The division monitors and improves SIB's processes, ensuring that agreed upon procedures are followed.

### ***Capital Adequacy***

The UAE Central Bank traditionally imposed a 10 per cent. minimum total capital ratio to be maintained by banks in the UAE, however, as a result of the global economic slowdown, the UAE Ministry of Finance announced on 31 August 2009 that banks operating in the UAE would be required to have a minimum total capital ratio of 11 per cent. by 30 September 2009 and a minimum total capital ratio of 12 per cent. by 30 June 2010.

The UAE Central Bank has also traditionally imposed a 6 per cent. minimum on the Tier 1 capital ratio that has to be maintained by banks' in the UAE. However, the UAE Ministry of Finance also announced on 31 August 2009 that banks operating in the UAE would be required to have a minimum Tier 1 capital ratio of 7 per cent. from 30 September 2009 and a minimum Tier 1 capital ratio of 8 per cent. by 30 June 2010. A bank's Tier 2 capital will only be considered for capital adequacy purposes up to a maximum of 67 per cent. of its core Tier 1 capital. The UAE Central Bank allows general provisions, undisclosed reserves, hybrid capital instruments and subordinated term loans to be eligible for inclusion in the calculation of Tier 2 capital.

While the calculation of capital adequacy ratios in the UAE follows the BIS guidelines, claims on or guaranteed by GCC central governments and central banks are risk weighted at zero per cent. and claims on GCC government non-commercial public sector entities are risk-weighted at 50 per cent.

When assessing the capital adequacy of an individual bank, the UAE Central Bank will take a number of factors into consideration, such as the extent and nature of credit concentration, policies

and procedures and internal control systems and may set a higher total capital requirement for that particular bank if it deems it necessary.

SIB's capital adequacy figures for the years ended 31 December 2012 and 31 December 2011 are set out in the table below:

	<b>BASEL II</b>	
	<b>2012</b>	<b>2011</b>
	<i>(AED thousands)</i>	
<b>Tier 1 capital</b>		
Ordinary share capital .....	2,425,500	2,425,500
Retained earnings .....	662,093	616,925
Statutory and special reserve .....	89,008	89,008
Legal Reserve .....	1,293,755	1,307,136
<b>Total Tier 1 Capital Base</b> .....	<b>4,470,356</b>	<b>4,438,569</b>
<b>Tier 2 capital</b>		
Fair value reserve .....	–	–
Collective impairment provisions .....	71,459	69,259
<b>Total Tier 2 Capital Base</b> .....	<b>71,459</b>	<b>69,259</b>
<b>Total Capital Base</b> .....	<b>4,541,815</b>	<b>4,507,828</b>
<b>Risk weighted assets:</b>		
On balance sheet.....	18,338,865	17,798,726
Off balance sheet.....	979,667	801,159
Credit Risk .....	11,758,565	11,082,940
Market Risk .....	552,277	359,367
Operational Risk .....	772,697	745,692
<b>Risk weighted assets</b> .....	<b>13,083,539</b>	<b>12,187,999</b>
<b>Tier 1 Ratio</b> .....	<b>34.17%</b>	<b>36.42%</b>
<b>Capital adequacy ratio</b> .....	<b>34.71%</b>	<b>36.99%</b>

Under Union Law No. (10) of 1980 Concerning the Central Bank, the Monetary System and Organization of Banking, banks are required to transfer 10 per cent. of profit each year into a statutory reserve until this reserve makes up 50 per cent. of capital. Distributions cannot be made from this reserve, except in special legally defined circumstances. All dividends have to be authorised by the UAE Central Bank. See further “*United Arab Emirates Banking System and Prudential Regulation*” below.

#### *Distributions of Profit*

Depending on the profitability of SIB and capital requirements, SIB's Board of Directors may propose a dividend after announcing SIB's year-end financial results. In accordance with UAE Central Bank guidelines, SIB is restricted from distributing more than 50 per cent. of its profits as a dividend. Any dividend proposed by the Board of Directors must be approved at SIB's annual general meeting.

#### *Basel II and Basel III*

The implementation of the Basel II initiative within the UAE is governed by the UAE Central Bank circular 3735 of August 2006 (the **Circular**). SIB has successfully implemented the standardised approaches to credit risk as required by the Circular and has met the 1 January 2011 deadline for the implementation of the models for internal rating based systems.

SIB's current Tier I and total capital adequacy ratios are higher than the future targets suggested by Basel III for UAE banks.

## **Corporate Governance**

SIB applies the basic principles of good corporate governance across each of its functions. In 2007, SIB established a corporate governance policy framework as well as two critical Board Committees, the Audit Committee and the Risk Management Committee. Furthermore, the activities of SIB are overseen by the *Shari'a* Supervisory Board, thereby guaranteeing strict conformity with Islamic principles.

SIB's corporate governance structure is supported by SIB's committees and the Board of Directors, which has ultimate responsibility for representing and reporting to the shareholders. Through its own practices, the Board of Directors ensures that clear lines of responsibility and authority exist, with well defined roles, responsibilities and appropriate internal checks and balances.

SIB ensures that it complies with all regulatory and legal requirements by implementing effective controls, procedures and policies. Strategic and business plans are in place for three year periods, and are reviewed regularly with necessary updates suggested to the management and the Board of Directors.

As part of SIB's application of good corporate governance, any potential conflicts of interest that arise are proactively dealt with. The list below sets out certain principles that are applied by SIB:

- the positions of CEO and the Chairman of the Board of Directors are held by different persons, with a clear segregation of duties and responsibilities;
- directors refrain from passing any resolutions on matters that relate to their own interests;
- there is a clear distinction and segregation of functions and duties relating to the Board of Directors and the executive management. The different functions are documented in SIB's corporate governance framework;
- the CEO attends Audit Committee meetings as a permanent invitee only; and
- the Internal Audit, Risk Management and *Shari'a* Control divisions are independent and have clear reporting lines.

## ***Shari'a* Compliance**

Every transaction that SIB undertakes and all products that it offers must be in strict compliance with the principles of *Shari'a*, as interpreted by SIB's SSB. See further, "*Shari'a Supervisory Board*". Such compliance is monitored by SIB's SCD, which is entrusted with the day to day responsibilities of *Shari'a* control.

The management of SIB with the consent of the SSB, nominates an employee of SIB as a secretary to co-ordinate with the *Shari'a* Supervisory Board. In order to assist in the liaison between the SSB and the SCD and to improve turnaround time for the SSB's approval, the Head of the SCD normally takes up the position of the secretary to the SSB. All matters requiring the SSB's approval must be delivered first to the SCD, either in a formal meeting or by circulation. However, in order to be able to offer products and undertake certain types of transaction quickly and efficiently, the SCD has the authority to draft standard contracts for the various products which have been declared *Shari'a* compliant by the SSB. Once these standard form contracts have been approved by the SSB, their future use does not usually require approval from the SSB other than in circumstances where any material amendments are required.

Since 2011, Dar Al Shariah LLC has acted as *Shari'a* auditor and advisor to SIB and provides support and advisory services to the SSB and SCD on matters of *Shari'a* compliance.

## **Credit Approval Procedures**

### ***Credit Exposure***

The financing policy of SIB is guided by its Islamic Financing Policy Framework, which is reviewed from time to time in light of market conditions. At all times, SIB strictly adheres to and observes the individual and aggregate percentage limits regulating large exposures stipulated by the UAE Central Bank. Such limits may be exceeded provided that the UAE Central Bank's prior approval is sought.

### ***Retail Banking Credit Approval Procedures***

SIB's retail products are supported by the application of stringent credit criteria. These credit criteria are dynamic and have been reviewed following the recent financial crisis. As a conservative banking institution that applies *Shari'a* rules and principles, SIB is only prepared to extend finance to those customers that can afford it with a special emphasis on debt service ratios, which are currently capped at 50 per cent. Unlike other banks in the GCC, SIB predominantly accepts applications for credit cards and finance from those customers that credit their salary to SIB. All retail banking credit is subject to a cap of AED 250,000 per customer (excluding real estate finance). Any exceptions to this rule require the express permission of SIB's Credit Committee. As such, the management of SIB believes that delinquency rates have been comparatively low in retail product categories.

Following the recent financial crisis, SIB has amended its real estate financing criteria such that it will now only extend finance up to a maximum of 50 per cent. of the value of the property being financed (a decrease from between 60-70 per cent. during 2008). Stringent credit criteria such as these have helped to insulate SIB from the recent falls in the value of real estate across the UAE. This action was taken prior to the publication by the UAE Central Bank of, but is in line with, notice no. 3871/2012 dated 30 December 2012 in respect of loan to value ratios for home mortgages (see "*The United Arab Emirates Banking Sector and Prudential Regulations – Recent Trends in Banking – Credit Controls*").

### ***Corporate Banking Credit Approval Procedures***

#### ***Credit Approval Philosophy***

SIB has a centralised credit approval philosophy with ultimate authority resting with the Credit Committee, Executive Committee and Board of Directors. SIB's credit philosophy is supported by well defined and formulated Islamic Financing Policies, guidelines and processes for credit risk management which include credit appraisal, approval and administration. In addition to Islamic Financing Policies, credit guidelines have been formulated by SIB's Board of Directors that restrict lending in certain areas. In particular, SIB maintains a dynamic 'watch list' of countries from which no investment or lending can take place. In addition, SIB maintains sector limits in order to mitigate the effects of concentration risk and exposure to certain industries.

SIB's credit approval process consists of the following stages:

- relevant business area solicits clients, prepares the necessary documentation and submits a proposal to the Credit Division;
- the Credit Division independently reviews, evaluates and assesses the documentation and prepares a due diligence report. The Credit Division will then make recommendations to the Credit Committee;
- the Credit Committee makes a final decision within the guidelines that have been formulated by the Board of Directors;

- proposals are forwarded to the Credit Administration department for the completion of final documentation; and
- the transaction or deal is carried out by the finance operations division.

#### *Credit Approval Process*

SIB adopts a consistent and comprehensive approach to credit applications. Every product (whether retail or corporate) has its own set of detailed policy guidelines which have been approved by the Board of Directors. SIB has recently introduced an online credit approval process management system to increase the speed and efficiency of the credit approval process. The new management system has been designed to facilitate the capture of financial and qualitative information on SIB's counterparties. The system will serve as a repository for both current and historical corporate information which will facilitate financial statement analysis, scenario analysis, credit testing and peer analysis as a part of the credit appraisal process.

#### **Security Procedures**

SIB has a Credit and Investment Administration Department, which handles the completion of documentation, securities and collateral management relating to approved facilities. Prior to the granting of a new facility, SIB ensures that the necessary contracts are entered into and appropriate security is obtained.

#### **Non-Performing Financing Receivables**

The International Financial Reporting Standards (**IFRS**) set forth strict principles for the recognition and provisioning of impaired financing receivables. SIB has therefore established and maintained regular procedures for the recognition of actual and potential defaulted payments, identification of non-serviced, unearned or overdue profit payments and for methodical assessment of potential financing receivables losses. The credit division has responsibility for monitoring non-performing loans.

In line with UAE Central Bank requirements, SIB classifies those accounts where recovery is considered doubtful and ensures provisions are made accordingly.

SIB continues to pro-actively manage credit quality and delinquencies and non-performing financing receivables across its corporate and retail portfolios, which have increased within expected levels. The non-performing financing receivables ratio, excluding impaired investment securities and legacy loans and advances, increased to 6.20 per cent. by 31 December 2012 from 3.85 per cent. reported as at 31 December 2011. The impairment allowance on financing receivables and leased assets in respect of 2012 increased to AED 248.28 million compared to AED 201.96 million in 2011. This increase was primarily due to an increase in the balance of impaired financing receivables at the beginning of 2012.

The following table provides a breakdown of impaired financing receivables by sector for the years ended 31 December 2012 and 2011:

<b>Impaired financing receivables by sector</b>	<b>2012</b>	<b>2011</b>
	<i>(AED in millions)</i>	
Trade .....	11	12
Construction .....	8	1
Services .....	78	70
Manufacturing .....	–	–
Government .....	–	–
Public Sector .....	–	–
Other Corporate Loans .....	–	–
Total Corporate Loans .....	98	82
Total Retail Loans .....	386	178
<b>Total Impairment .....</b>	<b>484</b>	<b>260</b>

The following table summarises the movements in allowances for impairment for financing receivables for SIB for the years ended 31 December 2012 and 2011.

<b>Movement in allowances for impairment (financing receivables)</b>	<b>2012</b>	<b>2011</b>
	<i>(AED thousands)</i>	
Balance of allowances for impairment as at 1 January .....	153,754	135,539
Allowance for impairment made during the year .....	36,094	36,400
Recoveries made during the year .....	(9,499)	(17,424)
Amount written off during the year .....	(656)	(761)
<b>Balance of allowances for impairment as at 31 December .....</b>	<b>179,693</b>	<b>153,754</b>

The following table summarises the movements in allowances for impairment for leased assets for SIB for the years ended 31 December 2012 and 2011.

<b>Movement in allowances for impairment (leased assets)</b>	<b>2012</b>	<b>2011</b>
	<i>(AED thousands)</i>	
Balance of allowances for impairment as at 1 January .....	48,208	25,860
Allowance for impairment made during the year .....	25,380	23,559
Recoveries made during the year .....	(5,000)	(1,211)
<b>Balance of allowances for impairment as at 31 December .....</b>	<b>68,588</b>	<b>48,208</b>

## **Industry Regulation and Compliance**

### ***Industry Regulation and Supervision***

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

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

As a UAE company, SIB is also subject to supervision and regulation at a corporate level by both the UAE Ministry of Economy and Planning and by the local regulatory authorities within each of the emirates of the UAE in relation to branches located in those emirates. For further information, see “*The United Arab Emirates Banking System and Prudential Regulation*” below.

### **Regulation of Islamic Banks**

SIB operates under a commercial banking licence granted to it by the UAE Central Bank to undertake Islamic banking activities. The licensing of Islamic banks requires the appointment of a *Shari’a* Committee which ensures the adherence to *Shari’a* principles in SIB’s operations and contracts.

#### *Fatwa & Shari’a Supervisory Board*

The SSB oversees the application of different aspects of *Shari’a* within SIB and ensures that all transactions are in strict compliance with *Shari’a* principles. The Board of Directors is obliged to obey the *fatwa* (judgments) of the SSB regardless of whether a unanimous or majority vote secured the decision. SSB meetings are held periodically or whenever the need arises.

As at the date of this Base Prospectus, the three members of SIB’s SSB are:

**Dr. Jassem Ali Salem Al Shamsi (Chairman)** heads the Fatwa & Shari’a Supervisory Board of Sharjah Islamic Bank, having been appointed in March 2013. He is the Dean of the Faculty of Shari’a & Law at UAE University, Al Ain. He holds a Ph.D in Civil Law from the Ain Shams University. He has authored numerous books and research papers with a special focus on comparative studies of laws with Islamic jurisprudence.

**Dr. Ibrahim Ali Ahmed Al Tunaiji (Member)** holds a Ph.D. from the Jordanian University. Currently, he is the Head of the Department of Islamic Studies of the Faculty of Law at UAE University. He has published various books and research in the fields of Islamic jurisprudence and Islamic banking. He joined SIB’s Fatwa & Shari’a Supervisory Board in March 2013.

**Dr. Ibrahim Ali Abdullah Al Mansoori (Member)** holds a Ph.D. in Islamic Banking & Economy. He is an associate professor in Sharjah University and Ajman University. He is the author of various studies and papers on contemporary matters relating to Islamic banking and various *Shari’a* issues. He joined SIB’s Fatwa & Shari’a Supervisory Board in March 2013.

The SSB structures *Shari’a* compliant transactions, templates and banking products which enable SIB to follow market trends while maintaining the highest levels of *Shari’a* compliance. It also analyses unprecedented cases which have not been covered by an existing *fatwa* in order to ensure *Shari’a* compliance before any new products are introduced or a new procedure is implemented.

#### *Shari’a Control Division*

The SCD determines the level of compliance of SIB’s activities within the requisite *Shari’a* rules approved by the SSB. It acts as a conduit between the various divisions of SIB and the SSB. It also solves any daily queries relating to *Shari’a* compliance and will refer to the SSB if necessary. In addition, it refines and improves contracts and processes underlying current Islamic products and acts together with the SSB in creating new products.

### **Real Estate Property**

As at 31 December 2012, SIB owned land and buildings classified as Investment Properties and Properties Held for Sale in the financial statements at a carrying value of AED 1.3 billion.

## Capital Expenditure

SIB does not expect to incur capital expenditure outside its ordinary course of business. For the year ended 31 December 2012, SIB incurred AED 63.2 million of capital expenditure, compared to approximately AED 60.5 million for the year ended 31 December 2011. SIB expects to undertake approximately AED 90 million of capital expenditure in 2013, principally for investment in information technology (IT), expanding and refurbishing its branch network and purchasing vehicles which will be used for operational purposes.

## Compliance Risk and Anti-Money Laundering Policies

SIB has implemented detailed AML and KYC policies and procedures. The responsibility for SIB's compliance function rests with the Head of Compliance. The Head of Compliance is also SIB's nominated money laundering reporting officer (**MLRO**). As part of its AML policy, SIB conducts a KYC check, which is mandatory for all new accounts. A customer profile is created at the time of account opening and is updated as customer circumstances change and develop during their time with SIB.

The MLRO acts as the main coordinator and point of contact between SIB and the Anti-Money Laundering and Suspicious Cases Unit of the Central Bank (**AMLSCU**). All financial transactions (cash and non-cash transactions) are closely monitored and suspicious transactions are reported to the AMLSCU. The MLRO ensures that all black listed names circulated by regulatory bodies are checked against SIB's customer database. If a suspicious case arises, the MLRO will investigate and undertake appropriate action including reporting the case to AMLSCU if necessary.

SIB's compliance department ensures that SIB meets each of its regulatory obligations as well as ensuring that it is up to date with all regulatory developments. SIB complies with each of the regulatory obligations imposed by the UAE Central Bank, UN and international sanctions.

All staff are required to be aware of SIB's AML policy and procedures. In addition, SIB conducts AML workshops for all of its employees.

## Internal Audit

SIB's Internal Audit Division (**IAD**) operates under a charter approved by the Board of Directors. The IAD consists of 15 members that are independent from the other operations of SIB and is led by the Chief of Internal Audit. In order to ensure independence and objectivity, in line with SIB's adoption of good corporate governance standards, the IAD reports directly to the Board of Directors.

The primary objective of the IAD is to independently assess the adequacy and effectiveness of the control framework through which the activities of SIB are conducted. Furthermore, the IAD monitors SIB's compliance with internal policies as well as the requirements of the regulatory authorities in UAE. The IAD develops and maintains comprehensive risk based audit coverage with a primary objective of independently assessing and reporting on the adequacy of SIB's control framework. The IAD provides assurance to the Board of Directors that SIB's resources are performing in a controlled manner.

## Funding

The Investment Group's TD manages the overall short-term and long-term liquidity of SIB, guided by the overriding principle of prudent liquidity management. The division operates under the direction and instruction of SIB's ALCO. Most of SIB's long term funding requirements are met through customer deposits and Sukuk borrowing, with short term requirements met through inter-bank loans. Liquidity risks are mitigated by placing surplus funds across short-term tenors ranging from the overnight market to 3 months Treasury bills, ensuring that SIB's liquidity position remains at a comfortable level.

In 2008, SIB accessed the Federal Government's liquidity facility, drawing AED 630 million in the form of fixed deposits convertible into lower Tier II securities. These deposits were drawn in two tranches, the first of which matured in 2011 and the second of which was repaid in advance of scheduled maturity in March 2013.

Through its IBD, SIB also raises money through the international capital markets. As at the date of this Base Prospectus, SIB has U.S.\$400 million of sukuk outstanding, which is due to mature in May 2016.

### **Information Technology**

SIB regards the role of IT to be significant in ensuring that SIB remains responsive and flexible to the competitive and dynamic forces of the environment within which it operates. SIB's IT division is focused on utilising the most advanced IT systems to secure SIB's customers and ensure that customers' data is well protected and secured against unauthorised entry. Accordingly, SIB continues to invest in IT to ensure that it is resourced in line with modern banking requirements. SIB spent AED 4.6 million on IT expenditure during 2012 and it expects to spend approximately AED 75 million on IT investment in 2013, with a large majority of this expenditure directed at core banking system transitioning.

SIB is continuously investing in technology to improve customer experience by transforming business processes. The IT team of SIB has integrated customer facing systems with Emirates ID facilitating the capturing of customer information from Emirates ID cards.

As part of its commitment to social and humanitarian responsibilities, SIB introduced a new "talking" ATM for blind and visually impaired people in 2012. The ATM, located at the Emirates Association for the Blind's Sharjah headquarters, is the first of its kind in the Middle East which features a large Braille keypad, high-resolution screen, speakers and a headphone connection to ensure privacy.

To ensure confidentiality, integrity and security of customer information, SIB implemented Information Security policies and procedures in accordance with best practices based on the ISO 27001 framework. The Disaster Recovery (**DR**) arrangements of SIB's IT systems were strengthened in 2012 by relocating SIB's DR site to state-of-the-art datacenter hosted by a reputable UAE telecom provider.

SIB has initiated a strategic program to further update and maintain its core systems and technologies with considerable investments to setup scalable platforms for future business growth.

### **Insurance**

SIB has various insurance policies in place, including property, motor fleet and public liability. SIB believes that these insurance policies provide it with comprehensive insurance coverage against the various risks to which SIB may be exposed.

### **Litigation**

SIB is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of SIB.

Therefore no material provision has been made as at 31 December 2012 regarding any outstanding legal proceedings against SIB.

### **Fiscal Year**

The fiscal year of SIB is the calendar year ending on 31 December.

**Auditors**

The independent auditors of SIB are Messrs KPMG, Chartered Accountants, of P.O. Box 28653, Al Batha Tower, Buhaira Corniche, Sharjah, UAE who have audited SIB's accounts, without qualification, in accordance with International Standards on Auditing for each of the financial years ended on 31 December 2012 and 31 December 2011.

KPMG is regulated in the UAE by the UAE Ministry of Economy which has issued KPMG with a license to practise as auditors. There is no professional institute of auditors in the UAE and, accordingly, KPMG is not a member of a professional body in the UAE. All of KPMG's audit professionals and partners are members of the institutes from where they received their professional qualification.

## SELECTED FINANCIAL INFORMATION

The following tables set out in summary form the financial position and statement of income information relating to SIB. Such information is extracted from the Financial Statements. The Financial Statements together with the audit reports thereon appear elsewhere in this Base Prospectus. The financial information presented below should be read in conjunction with the Financial Statements.

### Sources of Funding

SIB's main source of funding has been customer and other banks' deposits and shareholders' equity. The following table sets out certain details of such funding for SIB as at 31 December 2012 (audited) and 31 December 2011 (audited):

<u>Description</u>	<u>31 December 2012</u>	<u>31 December 2011</u>
	<i>(AED millions)</i>	
Customer Deposits .....	11,335	10,399
Due to Banks .....	470	901
Sukuk Payable .....	1,464	1,463
Shareholders' Equity .....	4,444	4,406

### Assets and Investments

The following table summarises the position in relation to some of SIB's principal assets and investments as at 31 December 2012 (audited) and 31 December 2011 (audited):

	<u>31 December 2012</u>	<u>31 December 2011</u>
	<i>(AED millions)</i>	
Cash and Balances with Banks and Financial Institutions .....	1,783	1,770
International Murabaha and Wakalah with Financial Institutions .....	2,372	2,342
Financing Receivables .....	2,779	2,371
Ijarah Receivables .....	7,970	8,057
Investment Securities .....	857	735
Investment Properties .....	223	191
Properties Held for Sale .....	1,083	1,045
Other Assets .....	395	407
Property and Equipment .....	854	815
<b>Total</b> .....	<b>18,316</b>	<b>17,733</b>

## Loans and Advances

The following table summarises the movement of loans and advances and related provision for impairment as at 31 December 2012 (audited) and 31 December 2011 (audited):

	<b>31 December 2012</b>	<b>31 December 2011</b>
	<i>(AED millions)</i>	
Loans and Advances .....	233	232
Provisions for Impaired Loans and Advances .....	(233)	(232)
Loans and Advances (net position) .....	–	–

## Contingent Liabilities and Commitments

The following table summarises the position in relation to SIB's contingent liabilities and commitments as at 31 December 2012 (audited) and 31 December 2011 (audited):

	<b>31 December 2012</b>	<b>31 December 2011</b>
	<i>(AED millions)</i>	
Letters of Credit .....	143	153
Letters of Guarantee .....	789	660

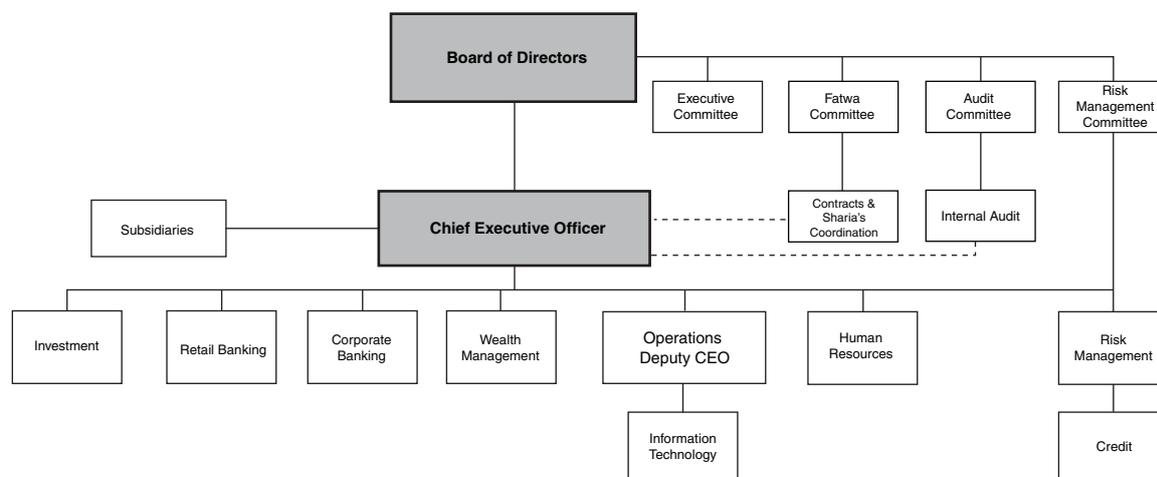
## Risk Asset Ratio and Leverage

The Risk Asset Ratio as reported to the UAE Central Bank closed at 42.57 per cent. for the year ended 31 December 2012 and 43.88 per cent. for the year ended 31 December 2011. This remains above the regulatory minimum 10 per cent. set by the UAE Central Bank. In the opinion of SIB it has adequate capital to meet its requirements.



## MANAGEMENT OF SHARJAH ISLAMIC BANK PJSC

SIB's management structure is summarised in the organisation chart set out below:



### Board of Directors

SIB operates under the direction of a board of directors (the **Board of Directors**), which is comprised of seven members vested with the power to manage SIB and conduct its business in accordance with its objects and with Federal Law No. 8 of 1984 concerning commercial companies of the UAE, SIB's Articles of Association and resolutions of the shareholders. The Board of Directors is elected as a body by the shareholders for a term of three years. The Board of Directors is fully responsible for SIB's performance and for reporting to the shareholders.

As at the date of this Base Prospectus, the Board of Directors is comprised of the seven directors listed below:

Name	Position
H.E. Abdul Rahman Mohammed Nassir Al Owais .....	Chairman
Mr. Ahmed Mohamed Obaid Al Shamsi .....	Vice Chairman
Mr. Othman Mohammed Sharif Abdalla Zaman .....	Board Member
Mr. Ahmed Ghanim Saeed Matar Al Suwaidi .....	Board Member
Mr. Ali Salim Al Mazrou .....	Board Member
Mr. Mohammad NA Al Fouzan .....	Board Member
Mr. Emad Yousuf Al Monayea .....	Board Member

**H.E. Abdul Rahman Mohammed Nassir Al Owais** is the Chairman of SIB's board, having been so appointed in March 2013. He has been a Board Member of SIB since 1995 and served as Vice Chairman of the Board prior to his appointment as Chairman. His appointment on the Board of SIB was recommended by the Government. He is the Minister of Health of the UAE and also a board member/director of Sharjah Insurance Company, Real Estate Bank and Al Owais Real Estate Company.

**Mr. Ahmed Mohamed Obaid Al Shamsi** has been a Board Member of SIB since 1995 and represents the Government of Sharjah. His appointment on the Board of SIB was recommended by the Government. He was appointed Vice Chairman of the Board in March 2013. He is also a board member/director of Falcon Group and Sharjah Transport.

**Mr. Othman Mohammed Sharif Abdalla Zaman** has been a Board Member of SIB since 1995. He is also a board member/director of Sharjah Insurance Company and Sharjah Cement and Industrial Development Company. His appointment on the Board of SIB was recommended by the Government.

**Mr. Ahmed Ghanim Saeed Matar Al Suwaidi** has been a Board Member of SIB since 1995. He is also a board member/director of Gulf Energy Limited and Gulf Navigation. His appointment on the Board of SIB was recommended by the Government.

**Mr. Ali Salim Al Mazrou** has been a Board Member of SIB since 1995. He is also a board member/director of Emirates Stones, Lamtalco and Municipal Council of Sharjah. His appointment on the Board of SIB was recommended by the Government.

**Mr. Mohammad NA Al Fouzan** has been a Board Member of SIB since 2008. He is also a board member/director of Al Mathna Investment and Integrated Systems Group. His appointment on the Board of SIB was recommended by KFH.

**Mr. Emad Yousuf Al Monayea** was appointed as a Board Member of SIB in March 2013. He also serves as Vice Chairman, Managing Director and CEO of Liquidity Management House, Kuwait, which is a subsidiary of KFH. His appointment on the Board of SIB was recommended by KFH.

The business address of SIB's Board of Directors is P.O. Box 4, Sharjah, United Arab Emirates.

No member of the Board of Directors has any actual or potential conflict of interest between his duties to SIB and his private interests or other duties.

### Senior Management

The day-to-day management of SIB is conducted by the senior management (the **Senior Management**). The Senior Management meets regularly to discuss the business strategy, business plans and performance, strategy and operation of SIB and submits its recommendation to the Board of Directors.

As at the date of this Base Prospectus, the Senior Management is comprised of the following managers.

<b>Name</b>	<b>Position</b>
Mohamed A Abdalla .....	Chief Executive Officer
Ahmed Saad Ibrahim .....	Deputy Chief Executive Officer
Mohammed Rizwan .....	Chief Risk Officer / Head of Risk Management Group
Saeed M Al Amiri .....	Head of Investment Group
Rahma Mohd. Al Shamsi .....	Head of Corporate Banking Group
Eman Jassim .....	Head of Human Resource Group
Abdul Rashid Athar .....	Head of Credit Division
Mona El Shinnawy .....	Head of Strategic Development Department
Jassem Mohamed Al Baloushi .....	Head of Retail Banking Group
Ravi Khanna .....	Chief Information Officer
Mohamed El-Bahi .....	Financial Controller
Khalaf Abdullah .....	Acting Chief of Internal Audit Division
Muhammad Ishaq .....	Head of Treasury Division
Anver Jalaldeen .....	Head of Investment Banking

### Mohamed A Abdalla, Chief Executive Officer

Mr Abdalla has served as Chief Executive Officer of SIB since 2006 having joined SIB in 1984. He has over 29 years' diversified experience in the banking industry. Between March 2001 and September 2002, he was the deputy chairman of the strategy committee formed to complete the transformation of SIB to an Islamic bank. Mr Abdalla is a visiting lecturer at the Banking and Financial Studies Institute, Sharjah and Institute of Administrative Development. He holds Board positions at various Sharjah entities including University of Sharjah and Al Qassimi Hospital.

### **Ahmed Saad Ibrahim, Deputy Chief Executive Officer**

Mr Ibrahim has served as Deputy Chief Executive Officer since early 2011 having been at SIB since 1998. He holds a bachelors degree in commerce from Cairo University. He is also a Certified Accountant. Prior to joining SIB, he has worked with Qatar National Bank and Commercial International Bank, Egypt (formerly Chase National Bank). He has over 29 years' experience in the banking industry.

### **Mohammed Rizwan, Chief Risk Officer**

Mr Rizwan joined SIB in 1999 and presently serves as Chief Risk Officer / Head of Risk Management Group of SIB. He holds a master of arts degree from India. Prior to joining SIB, he worked with ABN Amro and The Hong Kong Metropolitan Bank. He has over 31 years' of experience in the banking industry.

### **Saeed M Al Amiri, Head of Investment Group**

Mr Amiri joined SIB in 2002 and has served as the Head of Investment Group since 2007. He holds a master of business administration degree from the University of Sharjah and a bachelors degree from the University of Miami. Prior to joining SIB, he worked with Sharjah Department of Economic Development. He has 11 years' of experience in the banking industry.

### **Rahma Mohd. Al Shamsi, Head of Corporate Banking Group**

Mr Shamsi has served as Head of Corporate Banking Group of SIB since 2010 having been with SIB since 2004. He holds a graduate degree, majoring in finance, from University of Colorado, Denver. Prior to joining SIB, he has worked with KPMG and Abu Dhabi National Oil Company.

### **Eman Jassim, Head of Human Resource Group**

Ms Jassim has served as Head of Human Resource Group of SIB since 2007. She holds a masters in business administration degree from the American University of Hawaii. She has over 14 years' experience in managing human resources at SIB.

### **Abdul Rashid Athar, Head of Credit Division**

Mr Athar joined SIB in the beginning of 2012 as Head of Credit Division. He is a seasoned corporate credit banker with a career spanning over three decades. Prior to joining SIB, he served United Bank Limited, United Saudi Bank and HSBC Group in senior roles. He holds a bachelor degree, majoring in economics, from Punjab University, Pakistan.

### **Mona El Shinnawy, Head of Strategic Development Department**

Ms El Shinnawy has served as Head of Strategic Development Division of SIB since 2005, having joined in 2004. She holds a masters of arts in commerce from American University Cairo and a bachelors of arts from Cairo University. She has over 27 years' of experience with financial institutions such as Citibank, GIO Australia, First Gulf Bank and Union National Bank.

### **Jassem Mohamed Al Baloushi, Head of Retail Banking Group**

Mr Al Baloushi has served as Head of Retail Banking of SIB since 2010 and has been with SIB since 2006. He holds a master of business administration degree from University of Sharjah. Prior to joining SIB, he worked with Etisalat for 19 years.

### **Ravi Khanna, Chief Information Officer**

Mr Khanna has more than 27 years' of experience in information technology and has worked with banks in Oman and India for more than 21 years. He took over the role of Chief Information Officer of SIB in February 2012. Previously, Mr. Khanna worked at Bank Dhofar in Oman as Assistant General Manager and Head of Information Technology for 16 years, during which he led its Business and Technology teams and oversaw its core banking transformation. Mr. Khanna holds a bachelors degree in electrical engineering from Regional Engineering College, India. Mr Khanna is responsible for technology matters of SIB and its group businesses (including the real estate and Islamic finance businesses).

### **Mohamed El-Bahi, Financial Controller**

Mr El-Bahi has served as Financial Controller of SIB since 2005. He holds a bachelors degree in commerce and business administration from Cairo University. Prior to joining SIB, he worked with Qatar National Bank. He has over 19 years' of experience in the banking industry.

### **Khalaf Abdullah, Acting Chief of Internal Audit Division**

Mr Abdullah joined SIB in 2001 and has eleven years of audit experience in SIB. He graduated from Al Ain University, majoring in accountancy. During his career, Mr Abdullah has been invited to lecture on audit related subjects at various universities, governmental institutions and conferences.

### **Muhammad Ishaq, Head of Treasury**

Mr Ishaq has served as Head of Treasury of SIB since 2007. He holds a post graduate degree in commerce from Karachi University, Pakistan. Prior to joining SIB, he has worked with ANZ Grindlays Bank. He has over 25 years of treasury management experience out of his total experience of over 37 years' in the banking industry.

### **Anver Jalaldeen, Head of Investment Banking**

Mr Jalaldeen has served as Head of Investment Banking at SIB since 2008. He holds a graduate degree from Oklahoma State University, USA. Prior to joining SIB in 2003, he worked with Wyndham Corporation, Fidelity Investments and Abu Dhabi Islamic Bank. He has over 16 years of experience in financial and investment management.

The business address for each member of the Senior Management is P.O. Box 4, Sharjah, United Arab Emirates.

No member of the Senior Management has any actual or potential conflict of interest between his duties to SIB and his private interests or other duties.

### **Board Remuneration**

The members of the Board of Directors of SIB received AED 2.5 million in aggregate by way of board remuneration and benefits in kind during the year ended 31 December 2012.

### **Committees of the Board**

#### ***Executive Committee***

The Executive Committee (**EC**) consists of four members and is headed by the vice chairman of the Board of Directors. The EC acts as the Board of Director's senior executive management ensuring that the Board of Directors meets its strategic and operational objectives. The EC collectively monitors the performance of SIB and makes decisions within the authority limits delegated to it by the Board of Directors.

The EC meets at least once a quarter.

### ***Audit Committee***

The Audit Committee (**AC**) consists of three members and is headed by a director of SIB, with the Head of the Internal Audit Division acting as the secretary to the committee. The main purpose of the AC is to assist the Board in fulfilling its oversight responsibility by overseeing SIB's financial reporting processes, maintaining accounting policies and reviewing and approving financial information. The AC is also responsible for reviewing reports on SIB's internal controls, managing the relationship with SIB's external auditors and monitoring control issues which are of a major significance to SIB.

The AC meets once a quarter

### ***Risk Management Committee***

The Risk Management Committee (**RMC**) consists of five members and is headed by a director of SIB. The committee is composed of three non-executive directors, the CEO and CRO. The main purpose of the RMC is to assist the Board in fulfilling its oversight responsibility by overseeing the risks inherent in the businesses of SIB and the control processes with respect to such risks, reviewing the risk profile of SIB and managing the risk management compliance and control activities of SIB. In addition, the RMC provides a critical assessment of SIB's business strategies and plans from an enterprise risk perspective. The RMC is also responsible for ensuring that appropriate policies and procedures are in place for managing risks to which SIB is exposed.

The RMC meets once every quarter.

## **Management Committees**

### ***Management Committee***

The Management Committee (**MC**) consists of 13 members and is headed by the CEO. The scope of the MC includes all cross functional issues that are not covered in the scope of other committees. Typically, the MC covers areas including strategy, policies, human resources, marketing and administrative processes. In addition, the MC is responsible for liaising with each of the other divisions in SIB.

The members of the MC comprise the heads of SIB's functional divisions, together with representatives of its three subsidiaries. The MC meets once a month.

### ***Investment Committee***

The Investment Committee (**IC**) consists of four members and is headed by the CEO. The IC is responsible for reviewing SIB's investment portfolio and transactions emanating from the investment division on behalf of the Board of Directors.

The members of the IC comprise the CEO, the Deputy CEO, the CRO and the Head of the Investment Group. The IC meets at least once a month.

### ***IT Steering Committee***

The IT Steering Committee (**ITSC**) consists of four members and is headed by the CEO. The ITSC provides strategic and tactical guidance for managing SIB's overall technology systems over the long and short term to ensure that IT initiatives are consistent with the strategic business goals of SIB. The ITSC is responsible for providing guidance for the prioritisation and implementation of technology initiatives, reviewing IT operations, security plans and policies and reviewing SIB's overall IT development, strategic opportunities and plans.

### ***Asset and Liability Committee***

The ALCO consists of nine members and is headed by the CEO. The objective of ALCO is to derive the most appropriate strategy for SIB in terms of the balance of assets and liabilities given its expectations of the future and the potential consequences of profit rate movements, liquidity constraints, foreign exchange exposure and capital adequacy. ALCO is responsible for ensuring that all strategies conform to the appropriate risk level and exposure, as determined by the Board of Directors.

The members of the ALCO comprise:

- Chief Executive Officer;
- Deputy Chief Executive Officer;
- Credit Risk Officer;
- Head of Investment Group;
- Head of Retail Banking Group;
- Head of Corporate Banking Group;
- Head of Credit Division;
- Head of Strategic Development; and
- Head of Treasury Division.

The ALCO meets frequently to discuss and develop policy matters.

### ***Credit Committee***

The Credit Committee (**CC**) consists of five members and is headed by the CEO. The CC is responsible for managing the credit risk of SIB by reviewing credit limits, policies and procedures. The CC also approves certain positions of SIB and evaluates work out situations, as well as monitoring SIB's loans portfolio and the sufficiency of provisions.

The members of the CC comprise:

- Chief Executive Officer;
- Deputy Chief Executive Officer;
- Chief Risk Officer;
- Head of Investments Group; and
- Head of Corporate Banking Group.

The CC meets twice every week.

### ***Human Resource Committee***

The Human Resource Committee (**HRC**) consists of four members and is headed by the CEO. The HRC is responsible for the development, training, performance evaluation and recruitment of SIB's human capital.

The members of the HRC comprise the CEO, Deputy CEO, the Head of the Investment Group and Head of the Human Resource Group. The HRC meets at least once every two weeks.

## Employees

As at 31 December 2012, SIB employed 844 full time employees. As at the same date, SIB's subsidiaries had 102 full time employees in aggregate. SIB has had no experience with strikes since its establishment and considers its relationship with its employees to be good. SIB undertook a staff satisfaction survey in 2012 with the results of the survey reflecting positively and consistent with the results generally expected of similar institutions in the UAE where similar surveys have been undertaken.

SIB has its own in-house academy to provide ongoing training and education to its employees, including "soft-skills" training and training designed to improve employees' knowledge of SIB and its products and operations. The academy employs two full time trainers in order to service the needs of SIB's employees.

## Emiratization

SIB is committed to the development of UAE nationals. As a part of its "Emiratization" policy, SIB has undertaken several innovative initiatives to attract UAE nationals in the Islamic banking industry. Through careers fairs and regular contact with various universities and other educational institutions, SIB actively recruits talented UAE nationals. This has enabled SIB to become a leader in meeting and exceeding nationalisation targets. Through Mehnati (summer internship and training), Bedayati (mass recruitment of nationals into various positions) and Ruwaad (leadership development and succession planning programs), SIB is able to enjoy the benefits of having a skilled and motivated local workforce.

As at 31 December 2012, UAE nationals comprised approximately 40 per cent. of the total workforce of SIB, one of the highest percentages for any bank in the UAE. In recognition of its support of Emiratization policies, in 2007 and 2008, SIB received the Human Resources Development Award in Banking from the Department for Economic Development.

SIB plans to continue to recruit, train and support UAE nationals in line with its "Emiratization" policy.

## Transactions with related parties

SIB enters into transactions with its major shareholders, directors, senior officers and their related concerns in the ordinary course of business on a commercial arms'-length basis. All such dealings with related parties are performing financings and are free of any provision for possible losses. Related party transactions with the Government of Sharjah are specifically included in the related party disclosures in accordance with IFRS. The significant balances outstanding as at 31 December 2012 in respect of related parties are set out in the table below.

	<b>31 December 2012</b>	<b>31 December 2011</b>
	<i>(AED thousands)</i>	
Government of Sharjah receivables .....	1,335,056	1,013,637
Government departments and authorities receivables.....	2,746,670	2,750,234
Other financing receivables and investing activities .....	757,856	963,357
Government of Sharjah deposits.....	24,964	38,518
Government department & authority deposits .....	3,500,498	1,596,193
Other deposits .....	284,931	293,997
Contingent Liabilities .....	159,121	115,897
Income from financing and investing activities .....	285,619	223,702
Depositors' share profit .....	27,509	33,585

As at 31 December 2012, SIB had made facilities and investments to related parties totalling AED 4.8 billion and had received customer deposits from related parties totalling AED 3.8 billion. All of SIB's related party transactions fall within the guidelines set by the UAE Central Bank.

## OVERVIEW OF THE UNITED ARAB EMIRATES AND THE EMIRATE OF SHARJAH

### The UAE

The UAE is a federation of seven emirates. Formerly known as the Trucial States, they were a British protectorate until they achieved independence in December 1971 and merged to form the United Arab Emirates. Each emirate has a local government headed by the Ruler of the Emirate. There is a federal government which is headed by the President. The federal budget is principally funded by the emirate of Abu Dhabi.

The President of the UAE is H.H. Sheikh Khalifa bin Zayed Al Nahyan who is also the Ruler of Abu Dhabi, and the Prime Minister and Vice President is H.H. Shiekh Mohammad bin Rashid Al Maktoum who is also the Ruler of Dubai.

On 8 August 2012, Moody's Investors Service Singapore Pte. Ltd reaffirmed the UAE's long term credit rating of Aa2 with a stable outlook. The principal reason cited for this high investment grade rating is the assumption that the obligations of the federal government will be fully supported by the emirate of Abu Dhabi. The UAE is not rated by the other rating agencies.

### Governance, Legislation and Judiciary of the UAE

#### *UAE Constitution*

The original constitution of the UAE (the **Constitution**) was initially provisional and provided the legal framework for the UAE. The Constitution was made permanent pursuant to a constitutional amendment in May 1996.

The major principle adopted by the Constitution was that jurisdiction for enacting substantive legislation was confined to the federal government, but the local governments of the seven emirates were authorised to regulate those matters that were not the subject of legislation by the federal government.

Pursuant to Articles 120 and 121 of the Constitution, the federal government is responsible for foreign affairs; security and defence; nationality and immigration; education; public health; the currency; postal, telephone and other communications services; air traffic control and the licensing of aircraft and a number of other matters including labour relations; banking; the delimitation of territorial waters; and the extradition of criminals. Federal matters are regulated through a number of specially created federal ministries which include the Ministries of Defence, Economy, Finance, Foreign Affairs and Justice. Most of the federal government ministries are based in the emirate of Abu Dhabi. The UAE's monetary and exchange rate policy is managed on a federal basis by the UAE Central Bank. Article 122 of the Constitution states that the emirates shall have jurisdiction in all matters not assigned to the exclusive jurisdiction of the UAE, in accordance with the provision of the preceding two Articles.

The individual emirates are given flexibility in the governance and management of their own emirates. The Constitution permits individual emirates to elect to maintain their own competencies in certain sectors. The natural resources and wealth in each emirate are considered to be the public property of that emirate.

Each emirate manages its own budget on an independent basis and no emirate has any obligation to contribute to the budget of any other emirate. Each emirate makes contributions to the federal budget in agreed amounts.

#### *Federal Supreme Council*

The UAE is governed by the Supreme Council of the Rulers of all the emirates (the **Supreme Council**). This is the highest federal governing body and consists of the Rulers of the seven

emirates. The Supreme Council elects from its own membership the President and the Vice President of the UAE (for renewable five-year terms). Decisions relating to substantive matters are decided by a majority vote of five emirates, provided that the votes of both the emirate of Abu Dhabi and the emirate of Dubai are included in that majority, but matters that are purely procedural are decided by a simple majority vote.

The Supreme Council is vested with legislative as well as executive powers. It ratifies federal laws and decrees, plans general policy and approves the nomination of the Prime Minister and accepts his resignation. It also relieves him from his post upon the recommendation of the President.

### ***Federal Council of Ministers***

The Federal Council of Ministers (the **Cabinet**) is described in the Constitution as the executive authority for the UAE and is responsible for implementing policy decisions of the Supreme Council. The Cabinet is the principal executive body of the UAE. The Constitution defines the responsibilities of the Cabinet, which include the issuing of regulations, the preparation of draft laws and the drawing up of the annual federal budget.

Based in the emirate of Abu Dhabi, the Cabinet is headed by the Prime Minister and consists of the Deputy Prime Minister and a number of other Ministers. These Ministers are normally selected (for no fixed term) by the approval of the Supreme Council on the recommendation of the Prime Minister.

### ***Federal National Council***

The Federal National Council is a parliamentary body which comprises 40 members who are UAE nationals. Half of the members are appointed by their respective rulers and the other half is elected under an electoral process. Each emirate appoints members for a particular number of seats based on such emirate's population and size. The emirates of Abu Dhabi and Dubai have eight members each, the emirates of Ras Al Khaimah and Sharjah have six members each and the other emirates have four members each. The nomination of representative members is left to the discretion of each emirate, and the members' legislative term is four calendar years. The members represent the UAE as a whole rather than their individual emirates.

Presided over by a speaker, or either of two deputy speakers elected from amongst its members, the Federal National Council has both a legislative and supervisory role under the Constitution. This means that it is responsible for examining and, if required, amending, all proposed federal legislation, and is empowered to summon and to question any federal minister regarding ministry performance. One of the main duties of the Federal National Council is to discuss the annual budget of the UAE. Although the Federal National Council can monitor and debate government policy, it has no veto or amendment power and cannot initiate any legislation by itself.

### ***Legal and Court System***

There are three primary sources of law in the UAE, namely: (i) federal laws and decrees (applicable in all seven emirates); (ii) local laws and decrees (i.e. laws and regulations enacted by the emirates individually); and (iii) the *Shari'a* (Islamic law). The secondary form of law is trade custom or practice. In the absence of federal legislation on areas specifically reserved to federal authority, the Ruler or local government of each emirate can apply his or its own rules, regulations and practices.

The federal judiciary, whose independence is guaranteed under the Constitution, includes the Federal Supreme Court and Courts of First Instance. The Federal Supreme Court consists of five judges appointed by the Supreme Council. The judges decide on the constitutionality of federal laws and arbitrate on inter-emirate disputes and disputes between the federal government and the emirates.

In accordance with the Constitution, three of the seven emirates (the emirates of Abu Dhabi, Dubai and Ras Al Khaimah) have elected to maintain their own court system, separate from that of the UAE, and these courts have sole jurisdiction to hear cases brought in the respective emirates.

The laws of Sharjah are passed by Decree of the Ruler, H.H. Sheikh Dr. Sultan Bin Mohamed Al-Qasimi.

## **The Emirate of Sharjah**

### ***Overview***

The emirate of Sharjah is the third largest emirate in the UAE after Abu Dhabi and Dubai. The city of Sharjah is situated on the west coast of the UAE in the south-western part of the Arabian Gulf between Dubai and the northern emirates of Ajman, Umm Al Quiwain and Ras Al Khaimah.

Sharjah's enclaves of Khorfakkan, Dibba Al Kisan and Kalba provide access to the Arabian Sea and Indian Ocean through the Gulf of Oman. In total, Sharjah covers an area of 2,590 square kilometres, or 3.3 per cent. of the UAE's total area excluding islands.

The UAE as a whole extends along the west coast of the Arabian Gulf, from the base of the Qatar peninsula to Ras Al Khaimah in the North and across the Mussandum peninsula to the Gulf of Oman in the East, covering an area of 83,699 square kilometres in total.

Since 1972, the Ruler of Sharjah has been H.H. Sheikh Dr. Sultan Bin Mohamed Al-Qasimi.

The majority of the population of the UAE is estimated to be non-UAE nationals, mainly drawn from the Indian subcontinent, Europe and other Arab countries. Approximately 78 per cent. of the population is estimated to be male and 22 per cent. female, reflecting the large male expatriate workforce.

In addition to Sharjah International Airport, Sharjah has three deepwater sea ports: Khalid Port; Hamriyah Port; and Khorfakkan.

### ***Sharjah Executive Council***

The Ruler of Sharjah delegates the management of Sharjah's government and its dependencies to the Sharjah Executive Council (the **SEC**), which is headed by the Crown Prince of Sharjah, H.H. Sheikh Sultan Bin Mohammed Bin Sultan Al-Qasimi. The SEC meets on a weekly basis to review the progress of projects and various initiatives. Its functions include, *inter alia*:

- determining departmental policies;
- determining objectives for the economic and social development of the emirate;
- monitoring government expenditure;
- proposing laws and decrees to be referred to the Ruler;
- promoting civic engagement with the public;
- preserving the emirate's cultural heritage, and supporting scientific research, arts and literature;
- developing the emirate's natural resources; and
- preparation of the emirate's budget.

### ***Economy of the UAE and Sharjah***

The UAE is the second largest economy in the GCC after the Kingdom of Saudi Arabia. The UAE economy has generally grown over the last two decades, faltering only in 1998 and 2001, due to

lower oil prices and the Organisation of Petroleum Exporting Countries (**OPEC**) mandated production cuts, and in 2009 as a result of a significant oil price decline, the effects of the global financial crisis and the ending of the property bubble in both Dubai and Abu Dhabi.

Although it has one of the most diversified economies in the GGC, the UAE's wealth remains largely based on oil and gas. The UAE's oil reserves generated 38.6 per cent. of the UAE's gross domestic product (GDP) in 2011 (according to the UAE National Bureau of Statistics). According to OPEC data, as at the end of 2011, the UAE had approximately 6.6 per cent. of proven global oil reserves (giving it the sixth largest oil reserves amongst OPEC member countries).

Based on International Monetary Fund data extracted from the World Economic Outlook (October 2012), real GDP in the UAE increased by 5.91 per cent. in 2011, an estimated 4.035 per cent. in 2012 and is expected to increase 2.55 per cent. in 2013 and 3.099 per cent. in 2014.

Whilst, fluctuations in energy prices do have a bearing on economic growth, the UAE is generally viewed as being less vulnerable than some of its GCC neighbours, due to the growth in the non-oil sector, particularly trading, finance, real estate and tourism.

Sharjah's GDP constituted 5 per cent. of the UAE's total GDP in 2012. The total value of foreign trade in 2009 was AED 60.5 billion. Imports were valued at AED 39.7 billion, exports at AED 1.7 billion, re-exports at AED 16.7 billion and transit trade at AED 2.3 billion (source: Sharjah Investment and Development Authority).

### ***Foreign Direct Investment and Free Zones***

Sharjah has two free zones, both established in 1995: Hamriyah Free Zone located at the Hamriyah Port and Sharjah Airport International Free Zone at the Sharjah International Airport (the **Free Zones**).

There are many incentives for foreign corporate entities to set up in one of the Free Zones. Foreign corporate entities can freely operate in the Free Zones and Free Zone entities can be 100 per cent. foreign owned, unlike entities registered elsewhere in the UAE which require various degrees of local participation. Free Zone entities are exempt from paying corporate tax for 15 years, renewable for an additional 15 years, and individuals are exempt from paying income tax.

There are no currency restrictions levied on the capital or the profits of Free Zones entities and 100 per cent. of their capital and/or profit can be repatriated. The ability to import into the Free Zones and to export abroad without any import duties, taxes or currency restrictions being levied on the Free Zone entity is a strong incentive for foreign corporate entities wishing to carry on such activities from and into the Middle East region to set up in one of the Free Zones.

The incentives to set up in a Free Zone include an easily available and relatively inexpensive workforce, no restrictions on the issuance of work permits and residence visas, availability of plots of land, prebuilt warehouses and offices on an annual lease basis, affordable workers' accommodation and minimal legal and administrative procedures to commence operations.

## THE UNITED ARAB EMIRATES BANKING SECTOR AND PRUDENTIAL REGULATIONS

### SUMMARY

The global financial crisis has had an effect on the UAE banking sector and the key concerns facing the sector include a fall in real estate and equities prices. Although the UAE could be viewed as an over-banked market, even by regional standards, there has traditionally been little impetus for consolidation. The UAE's membership of the World Trade Organisation (the **WTO**) will require greater economic liberalisation, but it is unclear to what extent this will encourage foreign banks to expand their presence in the market. In the long-term, however, it is likely to lead to increased competition, which should spur consolidation, both within the UAE and across the GCC region generally.

As a banking regulator, the UAE Central Bank (the **UAE Central Bank**), established in 1980, has grown in stature over the years and is the governing body that regulates and supervises all banks operating in the UAE. The UAE Central Bank monitors banks through its Banking Supervision and Examination Department. It conducts reviews of banks periodically based on the risk profile of each bank. It also reviews all of the returns submitted by the banks to the UAE Central Bank.

Historically, the UAE Central Bank does not act as a "lender of last resort" instead this role tends to fall on the individual Emirs of each emirate.

### CHARACTERISTICS OF THE BANKING SYSTEM

#### Lack of Consolidation

The UAE may be seen as being over-banked with 51 different banks (comprising 23 locally incorporated banks and 28 foreign banks) licensed to operate inside the UAE as at 31 October 2012 (excluding the Dubai International Financial Centre (the **DIFC**)), serving a population estimated to be in the region of approximately 8 million people. Traditionally there has been little impetus for consolidation. However, mergers in the past have tended to come as a result of banks facing financial difficulties and some commentators suggest that the recent financial crisis has created more favourable conditions for consolidation. The federal structure of the country has, to some extent, encouraged the fragmented nature of the banking sector, with the individual emirates wishing to retain their own national banks. Rivalries between large local business families and a desire not to dilute shareholdings have also hampered the process of consolidation. However, in October 2007, the UAE's second and fourth largest banks at the time, Emirates Bank International and National Bank of Dubai, merged.

In addition, in May 2011, Dubai Bank PJSC was taken over by the Government of Dubai. The objective of this was to ensure the preservation of all of Dubai Bank's depositors' interests and the takeover was designed to ensure that Dubai Bank's business continued uninterrupted while options for the bank's future, whether to be run on a standalone basis or to be potentially merged with another Government of Dubai-owned bank, were assessed. In December 2012, Emirates Islamic Bank (**EIB**), a subsidiary of ENBD, completed its acquisition of Dubai Bank, and Dubai Bank is now a fully-owned subsidiary of EIB.

The relatively small size of most UAE banks has sometimes hindered them from competing for large financing deals in the region. It also means that they have comparatively small franchises with which to absorb capital costs, such as information technology system development. The advent of WTO liberalisation should allow greater competition from foreign banks, both from new entrants to the market and from existing players expanding their operations, which may eventually result in more mergers, possibly even creating banks with pan-Gulf franchises.

## **Domestic Focus**

The UAE incorporated banks are predominantly focused on the domestic market but a number have small operations overseas and are showing growing interest in cross-border business.

With a large number of banks chasing a limited number of wholesale lending opportunities, most banks have turned to retail banking, a previously untapped market. However, increasing competition in this area is gradually eroding margins and encouraging a relaxation of lending criteria. As the market has been tested only to a limited extent under adverse conditions, it is difficult to predict the future likelihood of asset quality problems.

Expansion of retail operations has required heavy investment in distribution channels, particularly ATM networks, kiosks and telephone and Internet banking services. As a consequence, information technology costs have been a prominent feature of many banks' expenses, although these are beginning to reduce as a consequence of the increased availability of 'pay as you go' models and the general reduction in the cost of information technology infrastructure.

## **Limited Foreign Ownership**

In 1987, the UAE Federal Government placed a freeze on new foreign banks opening operations in the UAE. At the same time, existing foreign banks were limited to a maximum of eight branches, which restricted their ability to develop any retail potential. However, three banks of GCC state origin, the National Bank of Kuwait, SAMBA and Doha Bank, were awarded licences by the UAE Central Bank following an agreement to allow market access to banks of GCC state origin in line with continuing efforts in regional integration. The opening of the DIFC has enabled international banks to establish a presence and compete in the wholesale banking market and this has seen new entities entering the market place.

## **Exposure to the Oil Sector**

With much of the economy directly or indirectly dependent on the oil sector, UAE banks are potentially vulnerable to business erosion during long periods of low oil prices. In particular, oil revenues tend to drive levels of liquidity and government infrastructure investment. Gradually, however, private non-oil sectors are gaining ground and the UAE economy is becoming less susceptible to oil price movements.

## **Islamic Banking**

*Shari'a* (Islamic) law forbids the charging of interest on any financial transaction. A number of banks have developed in the Islamic world to serve customers who wish to observe this principle. These institutions offer a range of products which, whilst broadly corresponding with conventional banking transactions, are structured in a way which avoids the application of interest. The UAE is home to numerous institutions offering Islamic banking and financial products. Such institutions include: Dubai Islamic Bank, Abu Dhabi Islamic Bank, EIB, Dubai Bank, Noor Islamic Bank, Osool Finance, Amlak Finance and SIB. The number of Islamic banks continues to rise, with both new entrants to the market and existing conventional banks recasting themselves as Islamic banks. In addition, conventional financial institutions often offer *Shari'a*-compliant products.

## **Legal Environment**

There are three primary sources of law in the UAE: federal laws and decrees, local laws and *Shari'a* (Islamic) law. In addition, Emiri decrees can be issued by the Rulers of each of the emirates which, when issued, have full legal effect and operation in such emirate. The secondary form of law is trade custom or practice. In the absence of federal legislation on areas specifically reserved to federal authority, the Ruler or local government will apply his or its own rules, regulations and practices.

## Supervision of Banks

The main piece of legislation covering the banking system is Union Law No. 10 of 1980 (the **Union Law**) which established the UAE Central Bank. The UAE Central Bank's primary roles are to formulate and implement banking, credit, monetary and fiscal policy and to be responsible for ensuring price and currency stability with free convertibility to foreign currencies. It is also the "bank for banks" within the UAE, although it is not the "lender of last resort". In the event of a bank experiencing financial difficulties or a solvency crisis, rescue funds – such as long-term liquidity or equity support – have historically come from the emirate in which the institution is based. However, in the event of a run on the currency or a major banking crisis, it is likely that the UAE Federal Government would ultimately stand as de facto defender of the currency and the "lender of last resort".

Federal Law No. 10 of 1980 (the **1980 Law**) grants the UAE Central Bank powers to:

- exercise currency issue, stabilisation, valuation and free convertibility;
- direct credit policy for balanced growth of the economy;
- organise and promote an effective banking system with private banks and institutions;
- advise the Federal Government on financial and monetary issues;
- maintain the Federal Government's reserves of gold and foreign currencies;
- act as a bank for the Federal Government and other banks operating in the UAE; and
- act as the Federal Government's financial agent with the International Monetary Fund (the **IMF**), the World Bank and other international financial organisations.

Historically, income from overseas investments has been used to fund fiscal deficits, obviating the need for the UAE Central Bank to issue government debt. However, the UAE Central Bank does issue certificates of deposit (**CDs**) to the banks, denominated in both U.S. dollars and UAE dirham, in order to absorb excess liquidity rather than to meet a specific funding need. There is presently no active secondary market in these securities, but they can be redeemed at face value at the UAE Central Bank at any time. In 2007, the UAE Central Bank introduced an auction system and allowed U.S. dollar drawings against UAE dirham CD holdings.

The UAE dirham is linked to the IMF's Special Drawing Right. However, the U.S. dollar is the intervention currency and, in reality, the UAE dirham is pegged to the U.S. dollar. This pegged exchange rate has been in place since the 1980s and has proved to be resilient both to political tensions in the region and to fluctuations in oil prices.

The UAE Central Bank is also responsible for regulating financial institutions in relation to money laundering controls and enforcing Federal Law No. 4 of 2002 regarding the Criminalisation of Money Laundering. It has established an Anti-Money Laundering and Suspicious Cases Unit which acts as the financial intelligence unit and has issued a number of detailed regulatory instructions in pursuit of anti-money laundering policies and procedures. The UAE has also established a National Anti-Money Laundering Committee, which is responsible for coordinating anti-money laundering policy.

The UAE further strengthened its legal authority to combat terrorism and terrorist financing, by passing Federal Law No. 1 of 2004 on Combating Terrorism Offences, which provided for the establishment of a National Anti-Terror Committee (the **NATC**). The NATC serves as a UAE inter-agency liaison.

Although the UAE Central Bank is responsible for regulating all banks, exchange houses, investment companies and other financial institutions in the UAE, the Dubai Financial Services Authority regulates all banking and financial services activities in the DIFC. The UAE Central Bank has also been growing in stature as a banking supervisor. However, it is hampered in its role by the

level of legal autonomy afforded to the individual emirates, which at times makes it difficult to enforce directives uniformly across the banking sector.

### **Lack of Developed Capital Markets**

The absence of mature bond or equity markets in the UAE means that banks have often shouldered the burden of long-term financing. This has tended to create a maturity mismatch in their balance sheets, as most of their liabilities are short-term customer deposits. Although the two stock markets, the Dubai Financial Market and the Abu Dhabi Securities Market (the **ADX**) (both of which were established in 2000), have grown rapidly over recent years, such growth has been affected by the recent global financial crisis.

During 2002, the Government of Dubai issued a decree establishing the DIFC. The DIFC, located in the emirate of Dubai, is a free trade zone and financial services centre focusing on private banking, asset management, investment banking, re-insurance activities, Islamic finance, securities trading and back office operations. The DIFC has its own civil and commercial laws and has been granted authority to self-legislate in civil and commercial cases. The NASDAQ Dubai (formerly known as the Dubai International Financial Exchange) is a securities exchange located in the DIFC which commenced operations on 26 September 2005. In December 2009 the Dubai Financial Market announced its intention to acquire the NASDAQ Dubai, with completion of the acquisition having occurred in July 2010.

### **Government Involvement**

There is a high degree of state involvement in the UAE banking sector. Most of the larger banks have some degree of government ownership. Privatisation, though advocated in principle, has been slow to happen in practice. The state is also the banking sector's largest customer, in terms of both deposits and project financing.

### **Expatriate Workforce**

An unusual feature of the UAE economy is its reliance on overseas labour, with expatriates making up approximately 80 per cent. of the workforce. The banking sector is no exception to this and expatriates are employed in the senior management of most of the major banks. This has brought expertise from more developed markets to the sector. However, the high level of expatriates in the country has been an increasing concern for the UAE Federal Government and as part of a policy of "Emiratisation", banks were instructed, in 1999, to increase UAE nationals on their payroll to 40 per cent. by 2009. Generally, banks have been moving closer to, or have met, this target, providing better training and compensation for UAE nationals.

### **Accounting Standards**

Since 1 January 1999, all UAE banks have been required to prepare their financial statements in accordance with IFRS (formerly International Accounting Standards (IAS)). Although this has led to a substantial improvement in disclosure standards, there remains some variability in the quality and depth of disclosure across the banking sector. Basel II was introduced effective as from 1 January 2008.

### **Structure of the Banking System**

#### ***Banking and financial services***

Banking institutions in the UAE fall into a number of categories, as defined by the Union Law. Domestic commercial banks, also known as "National" or "local" banks, of which there were 23 as at 31 October 2012, are required to be public shareholding companies with a minimum share capital of AED 40.0 million and must be majority owned by UAE nationals. Licensed foreign banks, of which there were 28 as at 31 October 2012, need to demonstrate that at least AED 40.0 million

has been allocated as capital funds for their operations in the UAE. The Union Law also licenses “financial institutions” (institutions whose principal functions are to extend credit, carry out financial transactions, invest in moveable property and other activities, but which are not permitted to accept funds by way of deposits) and financial and monetary intermediaries (money and stockbrokers).

## **RECENT TRENDS IN BANKING**

### **Profitability**

The performance of the UAE economy is influenced by oil prices, which directly affect fiscal revenues and hence determine the level of investment in government projects in the country. The high oil prices and strong economic conditions experienced in the UAE between 2004 and 2008 allowed UAE banks to expand significantly.

However, much of this growth focused on the real estate sector and equity financing which, in the context of the global financial crisis, represented a significant risk to the UAE banking system. Equity prices declined generally in the UAE in 2008 but, more recently, have rebounded with the ADX’s Abu Dhabi index rising from 2,390.0 at 31 December 2008 to 2,743.6 at 31 December 2011 before falling to 2,630.9 at 31 December 2012. The Dubai Financial Market index has shown greater volatility rising from 1,636.3 at 31 December 2008, to 1,803.6 at 31 December 2009, before falling to 1,630.5 at 31 December 2010 and 1,353.4 at 31 December 2011, then rising to 1,622.5 at 31 December 2012.

During 2008 to 2010, a number of banks have also been affected by the impact of mark to market accounting rules on their international investment portfolios. However, according to the IMF country report for the UAE in 2012, profitability of UAE banks, in terms of return on assets, remained stable at around 1.5 per cent. between 2007 and 2011.

### **Liquidity**

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

Banks must also adhere to a maximum loan to deposit ratio of 100 per cent. set by the UAE Central Bank. In this context, loans comprise loans and advances to customers and interbank assets maturing after three months.

UAE banks are mostly funded through on demand or time based customer deposits made by private individuals or private sector companies. Together, these deposits constituted approximately 60 per cent. of total deposits of the UAE banking sector as at 31 August 2012. The UAE Federal Government and the public sector contributed approximately 25 per cent. as at 31 August 2012. Non-resident and other sources contributed approximately 15 per cent. as at the same date (source: UAE Central Bank Statistical Bulletin).

In response to the global financial crisis, the UAE Central Bank announced a number of measures aimed at ensuring that adequate liquidity is available to banks operating in the UAE. In September 2008, the UAE Central Bank established an AED 50.0 billion liquidity facility which banks can draw upon subject to posting eligible debt securities as collateral. The liquidity facility is available only for the purpose of funding existing commitments. New lending is required to be based on growth in the customer deposit base. The UAE Central Bank also established a CD repo facility under which banks can use CDs as collateral for dirham or U.S. dollar funding from the UAE Central Bank.

In addition to these measures, the UAE Federal Government also provided AED 50.0 billion in deposits to UAE banks (as part of a larger AED 70.0 billion package) which, at the option of the banks, can be converted into Tier II capital in order to enhance capital adequacy ratios. A number of banks in the UAE have converted the UAE Federal Government deposits made with them into Tier II capital.

During 2008, Abu Dhabi Government-owned institutions assisted certain Abu Dhabi banks in strengthening their capital base through the subscription of mandatory convertible securities and, in February 2009, the Abu Dhabi Government (acting through the Department of Finance) subscribed for, in aggregate, a sum of AED 16.0 billion in subordinated Tier I capital notes issued by the five largest Abu Dhabi banks: National Bank of Abu Dhabi, ADCB, First Gulf Bank, Union National Bank and Abu Dhabi Islamic Bank.

A press statement issued by the Department of Finance of the Government of Dubai on 25 February 2009 announced that it had established a U.S.\$20.0 billion funding programme and that the first tranche, valued at U.S.\$10.0 billion with a five year tenure and paying a coupon rate of four per cent. per annum, had been issued in its entirety to the UAE Central Bank. In November 2009, the Department of Finance of the Government of Dubai announced that a second U.S.\$5.0 billion tranche was fully subscribed equally by National Bank of Abu Dhabi and Al Hilal Bank.

In line with Basel III requirements, the UAE Central Bank issued Circular 30/2012 (**Circular 30/2012**) dated 12 July 2012 entitled “Liquidity Regulations at Banks”, which includes a set of qualitative and quantitative liquidity requirements for UAE banks. The qualitative requirements set out in Circular 30/2012 (which, as at the date of this Base Prospectus, has not come into effect) elaborate on the responsibilities of a UAE bank’s board of directors and senior management as well as the overall liquidity risk framework. The new regulations are intended to ensure that liquidity risks are well managed at banks operating in the UAE and are in line with the Basel Committee on Banking Supervision recommendations and international best practices. These requirements include the following:

*Responsibilities of the board of directors:*

- to bear ultimate responsibility for liquidity risk management within the relevant UAE bank;
- to be familiar with liquidity risk management with at least one board member having detailed understanding of liquidity risk management; and
- to ensure the clear articulation of liquidity risk tolerance in line with the relevant UAE bank’s objectives, strategy and risk appetite.

*Responsibilities of Senior Management:*

- to bear ultimate responsibility for liquidity risk management within the relevant UAE bank;
- to be familiar with liquidity risk management with at least one member of senior management having detailed understanding of liquidity risk management; and
- to ensure the clear articulation of liquidity risk tolerance in line with the relevant UAE bank’s objectives, strategy and risk appetite.

*Liquidity risk framework:*

Circular 30/2012 requires each UAE bank to have a robust liquidity risk framework which comprises the following elements:

- sound processes and systems to identify, measure, monitor and control liquidity risk in a timely and accurate manner;
- a robust liquidity risk management framework (which must be shared with the UAE Central Bank upon request) with limits, warning indicators, communication and escalation procedures;
- regular stress testing of the portfolio for a variety of scenarios; results being communicated to the board of directors and the UAE Central Bank on request;

- incorporation of liquidity costs, benefits and risks into product pricing and approval processes;
- establishment of a forward-looking funding strategy with effective diversification of funding sources and tenors;
- setting of formal contingency funding plans;
- establishment of an adequate cushion of unencumbered, highly liquid assets as insurance against a range of liquidity stress scenarios; and
- a transfer pricing framework developed to reflect the actual cost of funding.

The quantitative requirements set out in Circular 30/2012 are intended to ensure that each UAE bank holds a minimum level of liquid assets which allow it to sustain a short-term liquidity stress (in circumstances both specific to that bank and market wide). In particular, the requirements include two interim ratios which are intended to apply until the Basel III Liquidity Coverage Ratio and Net Stable Funding Ratio come into effect. These include the following:

Interim ratios:	Liquid Assets Ratio (LAR>10%)	1 January 2013 – December 2014
	Uses to Stable Resources Ratio (USRR<100%)	1 June 2013 – December 2017
Basel III ratios:	Liquidity Coverage Ratio (LCR>100%)	January 2015 onwards
	Net Stable Funding Ratio (NSFR<100%)	January 2015 onwards

The Liquid Assets Ratio (the **LAR**) is an interim ratio designed to apply until the LCR comes into effect (as described below). Under the LAR, UAE banks are required to hold an amount equivalent to 10 per cent. of their liabilities in high quality liquid assets (including cash held with the UAE Central Bank, the UAE Central Bank CDs and certain UAE local government and public sector entity publicly traded instruments). The Uses (of funds) to Stable Resources Ratio (the **USRR**) is an interim ratio designed to prepare UAE banks for the implementation on NSFR (as described below). The USRR identifies key uses of funds as well as different types of funding sources used by banks. It assigns stability factors to sources of funds and required stable funding (usage) factors to asset classes.

*Liquidity Coverage Ratio (LCR):* The LCR represents a 30 days stress scenario with combined assumptions covering both bank specific and market wide stresses. These assumptions are applied to contractual data representing the main liquidity risk drivers at banks to determine cash outflows within the 30 days stress scenario. The LCR requires that UAE banks should always be able to cover the net cash outflow with eligible liquid assets at the minimum LCR determined by the UAE Central Bank. The Basel III accord requires that this minimum is 100 per cent. Circular 30/2012 describes in detail eligible liquid assets for this purpose.

*Net Stable Funding Ratio (NSFR):* This is a structural ratio that aims to ensure that banks have adequate stable funding to fund the assets on their balance sheets. It also requires an amount of stable funding to cover a portion of the relevant UAE bank's contingent liabilities. The NSFR mirrors the Basel III NSFR standard. The NSFR identifies the key uses of funds and the different types of funding sources used by the UAE banks. It assigns available stable funding (**ASF**) factors to the sources of funds and required stable funding (**RSF**) (usage) factors to asset classes and off balance sheet contingent exposures. The assigned ASF factor depends on the terms of funding and the perceived stability of the funding sources. The assigned ASF factor will depend on the liquidity of the asset being funded under a market-wide stress. Both factors will follow the Basel III NSFR standard.

This Circular has currently been suspended by the UAE Central Bank.

## Position of Depositors

There is no formal deposit protection scheme in the UAE. While no bank has, so far, been permitted to fail, during the 1980s and early 1990s a number were restructured by the relevant government authorities. In October 2008, in response to the global financial crisis, the UAE Federal Government announced that it intended to guarantee the deposits of all UAE banks and foreign banks with core operations in the UAE. Following therefrom, in May 2009 the UAE's National Federal Council approved a draft law guaranteeing federal deposits. However, until such time as the law is passed, there is no guaranteed government support.

## Prudential Regulations

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

## Capital Adequacy

All banks are required to follow the principles of the Basel II Accord in calculating their capital adequacy ratios. Basel II was introduced effective 1 January 2008. Since 1993, the UAE Central Bank has imposed a 10 per cent. minimum total capital ratio. In a circular dated 30 August 2009, the UAE Central Bank announced amendments to their capital adequacy requirements stating that UAE banks were required to have total capital adequacy ratios of at least 11 per cent., with a Tier I ratio of not less than 7 per cent., by 30 September 2009 and at least 12 per cent., with a Tier I ratio of not less than 8 per cent., by 30 June 2010. Thereafter through its circular dated 17 November 2009, the UAE Central Bank stated that it was expected that the main banks in the UAE would move to the Foundation Internal Ratings Based approach of Basel II in due course. Through this circular, the UAE Central Bank reiterated that all banks operating in the UAE were required to maintain a capital adequacy ratio at a minimum of 11 per cent. at all times, increasing to 12 per cent. by 30 June 2010 and also laid out its expectations in relation to Pillar II and Pillar III of the Basel II framework. Profits for the current period, goodwill, other intangibles, unrealised gains on investments and any shortfall in loan loss provisions are deducted from regulatory capital.

Whilst the calculation of capital adequacy ratios in the UAE follows the Bank of International Settlements guidelines, claims on or guaranteed by GCC central governments and central banks are risk-weighted at zero per cent. and claims on GCC government non-commercial public sector entities are risk-weighted at 50 per cent. Under the Union Law, banks are required to transfer 10 per cent. of profit each year into a statutory reserve until this reaches 50 per cent. of capital. Distributions cannot be made from this reserve, except in special legally defined circumstances. All dividends paid by UAE banks have to be authorised in advance by the UAE Central Bank.

The Basel Committee on Banking Supervision (the **Basel Committee**) has put forward a number of fundamental reforms to the regulatory capital framework for internationally active banks. On 16 December 2010 and on 13 January 2011, the Basel Committee issued guidance on the eligibility criteria for Tier 1 and Tier 2 capital instruments as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions (**Basel III**). The international implementation of the Basel III reforms began on 1 January 2013. However, the requirements are subject to a series of transitional arrangements and will be phased in over a period of time. The Basel Committee's press release dated 13 January 2011 entitled "*Minimum requirements to ensure loss absorbency at the point of non-viability*" (the

**January 2011 Press Release**) included an additional Basel III requirement (the **Non-Viability Requirement**) as follows:

“The terms and conditions of all non-common Tier 1 and Tier 2 instruments issued by an internationally active bank must have a provision that requires such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of the trigger event unless:

- (a) the governing jurisdiction of the bank has in place laws that:
  - (i) require such Tier 1 and Tier 2 instruments to be written off upon such event; or
  - (ii) otherwise require such instruments to fully absorb losses before tax payers are exposed to loss;
- (b) a peer group review confirms that the jurisdiction conforms with clause (a); and
- (c) it is disclosed by the relevant regulator and by the issuing bank, in issuance documents going forward, that such instruments are subject to loss under clause (a).

The trigger event is the earlier of: (1) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant authority.”

The January 2011 Press Release states that instruments issued after 1 January 2013 must meet the Non-Viability Requirement in order to be recognised as Tier 1 or Tier 2 instruments for regulatory capital purposes. The recognition of instruments issued before 1 January 2013 which do not meet these requirements will be phased out from 1 January 2013. In the UAE, a first draft of the Basel III implementation text could be published during the course of 2013, although, as at the date of this Base Prospectus, there has been no official proposal for the implementation of the Non-Viability Requirement in the UAE. In the absence of new UAE legislation or such a confirmation, the terms and conditions of any securities may still need to provide for the Non-Viability Requirement in order to qualify as regulatory capital under Basel III.

### **Reserve Requirements**

Reserve requirements are used by the UAE Central Bank as a means of prudential supervision and to control credit expansion. The reserve requirements are 1 per cent. for term deposits and 14 per cent. for all other customer balances.

### **Credit Controls**

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

By a circular dated 23 February 2011 on retail banking, the UAE Central Bank introduced regulations regarding bank loans and other services offered to individual customers. These regulations, among other things, impose maximum loan/income and loan to value ratios for retail products. For example, the regulations require that the amount of any personal consumer loan shall not exceed 20 times the salary or total income of the borrower with the repayment period not exceeding 48 months. These regulations may be amended in the future in accordance with notice no. 3871/2012 dated 30 December 2012 (which, as at the date of this Base Prospectus, has not come into effect), which specifies that the amount of mortgage loans for non-nationals should not exceed 50 per cent. of the property value for a first purchase of a home, and 40 per cent. for second

and subsequent homes (with the limits for UAE nationals being set at 70 per cent. and 60 per cent., respectively).

## Large Exposures

The UAE Central Bank defines large exposures as any funded on-or-off balance sheet exposure to a single borrower or group of related borrowers exceeding prescribed limits. The large exposure limits (defined as a percentage of the bank's capital base) were previously as follows:

- to a single borrower or group of borrowers – 7 per cent.;
- to a shareholder of the bank holding more than 5 per cent. of the bank's capital – 7 per cent.;
- overseas interbank exposures – 30 per cent. (UAE interbank exposures are subject to a 25 per cent. limit if their maturity is over one year, otherwise they are exempt from the regulations);
- to the bank's parent company, subsidiaries or affiliates – 20 per cent. (60 per cent. for all such exposures in aggregate); and
- to Board members – 5 per cent. (25 per cent. for all such exposures in aggregate).

However, on 4 April 2012, the UAE Central Bank published a circular (the **2012 Large Exposure Limits Circular**) amending certain of the large exposure limits set out above. The 2012 Large Exposure Limits Circular is effective as of its date and UAE banks were given until 30 September 2012 to meet the revised limits set out therein. The 2012 Large Exposure Limits Circular introduced new limits of 100 per cent. of the bank's capital base for all lending to UAE local governments and their non-commercial entities, together with a 25 per cent. limit to any single such borrower. Set out below is a table showing a summary of the changes introduced by the 2012 Large Exposure Limits Circular (defined as a percentage of the bank's capital base calculated under Basel II):

	<u>New Limit Individual</u>	<u>Aggregate</u>	<u>Old Limit Individual</u>	<u>Aggregate</u>
UAE Federal Government and their non-commercial entities .....	Exempt	Exempt	Exempt	Exempt
UAE local government and their non-commercial entities .....	25%	100%	Exempt	Exempt
Commercial entities of UAE Federal Government and UAE local government .....	25%; max 15% funded	100%	25%	None
Commercial or other (non-commercial) private sector entities and individuals .....	25%; max 10% funded	None	7%	None
Shareholders who own 5 per cent. or more of the bank's capital and related entities .....	20%; max 10% funded	50% max 25% funded	7%	None
Exposure to bank's subsidiaries and affiliates .....	10%	25%	20%	60%
Board members (funded and unfunded) .....	5%	25%	5%	25%

In addition, the aggregate of the items set out in the table above is not permitted to exceed 800 per cent. of the relevant bank's capital.

Exposures above these limits are subject to approval by the UAE Central Bank. Exposures to the government and sovereign risk are exempt from the regulations.

On 16 December 2012, the UAE Central Bank announced that it was postponing implementation of the new limits set out in the 2012 Large Exposure Limits Circular pending review with UAE banks. As at the date of this Base Prospectus, the UAE Central Bank has not said when it expects the new limits to be implemented.

In addition, the UAE Central Bank lending limits also require that:

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

### **Provisions for Loan Losses**

The UAE Central Bank stipulates that non-performing credits should be classified as either substandard, doubtful or loss depending on the likelihood of recovery, with provisions charged at a minimum of 25 per cent., 50 per cent. and 100 per cent., respectively. Any loans with either interest or principal in arrears by more than 90 days must be placed on a non-accrual basis and classified as non-performing. In addition, pursuant to Circular 28/2010 concerning regulations for classification of loans and their provisions issued by the UAE Central Bank on 11 November 2010, all banks in the UAE are required to make general provisions for unclassified loans and advances equal to 1.5 per cent. Of their risk-weighted assets by 2014. In practice, several banks operate more stringent policies and place loans on a non-accrual basis as soon as their recovery is in doubt.

Banks in the UAE generally do not write off non-performing loans from their books until all legal avenues of recovery have been exhausted. This factor tends to inflate the level of impaired loans carried on the balance sheets of UAE banks when compared to banks operating in other economies.

## OVERVIEW OF THE PRINCIPAL TRANSACTION DOCUMENTS

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

### **Purchase Agreement**

The Master Purchase Agreement will be entered into on 8 April 2013 between SIB Sukuk Company III Limited (in its capacities as Trustee and as Purchaser) and SIB (in its capacity as Seller) and will be governed by the laws of Sharjah and, to the extent applicable therein, the federal laws of the UAE. A Supplemental Purchase Contract (together with the Master Purchase Agreement, each a **Purchase Agreement**) between the same parties will be entered into on the Issue Date of each Series and will also be governed by the laws of Sharjah or, in the case of Real Estate Assets located in another Emirate, the laws of that Emirate and to the extent applicable therein in Sharjah or, as the case may be, that other Emirate, the federal laws of the UAE. Pursuant to the Purchase Agreement, the Seller will sell to the Purchaser, and the Purchaser will buy from the Seller, the relevant Initial Portfolio together with the transfer and assignment by the Seller to the Purchaser of all of the Seller's rights, title, interests, benefits and entitlements in, to and under the Assets which comprise the relevant Initial Portfolio. The relevant Initial Portfolio will also be identified in the annex to the applicable Supplemental Purchase Contract.

### **Service Agency Agreement**

The Service Agency Agreement will be entered into on 8 April 2013 between SIB Sukuk Company III Limited (in its capacity as Trustee) and SIB (as Service Agent of each Portfolio) and will be governed by English law.

### **Services**

Pursuant to the Service Agency Agreement, the Trustee will appoint the Service Agent to service the Portfolio applicable to each Series. In particular, the Service Agent will, in relation to each Series, perform, amongst other things, the following services (the **Services**) as agent of the Trustee:

- (a) it shall service the Portfolio in accordance with the corresponding Investment Plan set out in the Schedule to the Service Agency Agreement (a copy of which will be scheduled to the relevant Supplemental Purchase Contract, which includes the annual amount of expected Portfolio Income Revenues (as defined below) of the Portfolio (the **Expected Portfolio Income Revenues Amount**)), which shall be completed at the time of issue of the Series upon receipt from the Trustee of the relevant Supplemental Purchase Contract and the applicable Final Terms;
- (b) it shall ensure that, on the Issue Date of a Series at least 51 per cent. of the Value (as defined below) of the Initial Portfolio is derived from Tangible Assets;
- (c) it shall use all reasonable endeavours to procure that, at all times following each Issue Date, at least 51 per cent. of the Portfolio Value is derived from Tangible Assets and in the event that, at any time, the aggregate Value of the Tangible Assets comprised within the Portfolio should fall below 51 per cent. of the Portfolio Value, the Service Agent will use all reasonable endeavours to acquire as soon as reasonably practicable thereafter sufficient Tangible Assets to raise such percentage to a level that is equal to or greater than 51 per cent. of the Portfolio Value at such time (whether through the substitution, or procuring the substitution by SIB pursuant to the Sale Undertaking, of Tangible Assets for Intangible Assets or the acquisition for and on behalf of the Trustee of further Tangible Assets through the

reinvestment of Portfolio Principal Revenues (as defined below)). A breach of this requirement will not, however, constitute an SIB Event;

- (d) it shall at no time substitute any Asset(s) for any Asset(s) of a Value less than the Value at that time of the Asset(s) so substituted;
- (e) it shall use its best endeavours promptly to place (for and on behalf of the Trustee) all Portfolio Principal Revenues in acquiring, for and on behalf of the Trustee, further Tangible Assets and, to the extent insufficient Tangible Assets are available, to invest the cash sums representing such Portfolio Principal Revenues in *Shari'a* Compliant Investments (being an investment product which is structured to comply with *Shari'a* principles, including investment deposits with a *Shari'a* compliant financial institution) until it can, using its best endeavours, place those sums in further Tangible Assets and such sums and *Shari'a* Compliant Investments shall form part of the relevant Portfolio until they can be so placed;
- (f) it shall do all acts and things (including execution of such documents, issue of notices and commencement of any proceedings) that it considers (and without the need for the consent of the Trustee) reasonably necessary to ensure the assumption of, and compliance by each Asset Obligor with its covenants, undertakings or other obligations under the Asset Contract to which it is a party in accordance with applicable law and the terms of the Asset Contract, in each case in respect of the Assets;
- (g) it shall discharge or procure the discharge of all obligations to be discharged by SIB (in whatever capacity) in respect of any of the Assets under all Asset Contracts, it being acknowledged that the Service Agent may appoint one or more agents to discharge these obligations on its behalf;
- (h) it shall pay on behalf of the Trustee any actual costs, expenses, losses and Taxes (as defined in the Service Agency Agreement) which would otherwise be payable by the Trustee as a result of the Trustee's ownership of the Portfolio, such actual costs, expenses, losses and Taxes will be reimbursed in accordance with the Service Agency Agreement;
- (i) it shall use all reasonable endeavours to ensure the timely receipt of all Portfolio Revenues, investigate non-payment of Portfolio Revenues and generally make all reasonable efforts to collect or enforce the collection of such Portfolio Revenues under all Asset Contracts as and when the same shall become due;
- (j) it shall ensure that all Portfolio Income Revenues are received free and clear of all set-off, counterclaims deductions or withholdings for or on account of Taxes (or have otherwise been grossed up accordingly);
- (k) it shall use all reasonable endeavours to ensure that the Portfolio Income Revenues are at least equal to the Expected Portfolio Income Revenues Amount;
- (l) it shall maintain the Collection Accounts as described further under "Collection Accounts" below;
- (m) it shall obtain all necessary authorisations in connection with any of the Assets and its obligations under or in connection with the Service Agency Agreement;
- (n) it shall use its best endeavours to maintain the relevant Portfolio Value at least equal to the outstanding face amount of the relevant Certificates;
- (o) it shall use its reasonable endeavours to ensure that all Asset Obligors in respect of Tangible Assets maintain industry standard insurances, and fulfil all structural repair and major maintenance obligations in respect of the relevant Tangible Assets (each in accordance with the terms of the relevant Asset Contracts relating to the Tangible Assets);

- (p) it shall use its reasonable endeavours to procure the delivery of the Forward Lease Assets in accordance with the relevant underlying transaction contracts relating to those Forward Lease Assets, and ensure that the design and construction of the Forward Lease Assets is carried out in accordance with all applicable laws and good industry practice; and
- (q) it shall carry out any incidental matters relating to any of the above services.

For these purposes:

**Asset** means, in relation to a Series, each asset constituting the relevant Portfolio.

**Asset Contract** means the contracts and/or other agreements and/or documents evidencing or otherwise related to or associated with an Asset.

**Asset Obligor** means any person (other than SIB or any person acting on behalf of SIB or in conjunction with SIB as part of a syndicate of financiers or investors) that is a party to an Asset Contract as a party owing obligations to SIB or any person acting on behalf of SIB.

**Forward Lease Asset** means *ijara mousoofah fizzimmah* (forward *ijara*) real estate and non-real estate assets (and includes any ancillary rights under such forward lease agreements).

**Shari'a Compliant Investment** means an investment product which is structured to comply with *Shari'a* principles and shall include any investment deposit with a *Shari'a* compliant financial institution.

**Portfolio Value** means the sum of: (a) the Value of each Asset comprised in the Portfolio at the relevant time; and (b) any Portfolio Principal Revenues held by the Service Agent at the relevant time.

**Value** means, in respect of any Asset, the amount in the Specified Currency (following conversion, if necessary, of any relevant amount(s) at the spot rate of exchange (as defined in the Service Agency Agreement)) determined by SIB on the relevant date as being equal to: (a) in the case of Tangible Assets which are leased on an *ijara muntahiah bittamleek* (financial lease) basis, the aggregate of all outstanding fixed rental instalment amounts payable by the lessee or other equivalent fixed instalment amounts payable by the obligor, in each case in the nature of capital or principal payments in respect of the relevant asset; (b) in the case of Tangible Assets which are not leased on an *ijara muntahiah bittamleek* (financial lease) basis, the initial agreed value or the outstanding base amounts or other equivalent of aggregate fixed instalment amounts payable by the obligor or any other amounts in the nature of capital or principal payments in respect of the relevant asset; (c) in the case of Other Tangible Assets, the outstanding capital, investment amounts or, in the case of sukuk, outstanding face amount; (d) in the case of *ijara mousoofah fizzimmah* (forward *ijara*) real estate and non-real estate assets, the base amounts or aggregate of outstanding fixed rentals; (e) in the case of *murabaha* receivables under a *murabaha* (sale of commodities or goods on a cost plus basis) contract, the full outstanding deferred payment amount; and (f) in the case of any *Shari'a* Compliant Investments that form part of the Portfolio, the outstanding principal amount invested in that *Shari'a* Complaint Investment, in each case determined by SIB as being equal to the value of that Asset on each day on which it remains part of the relevant Portfolio.

### **Records and documents**

The Service Agent will undertake, in relation to each Series, that it will keep and maintain (and provide to the Trustee within 90 days of receiving a request in writing) all documents, books, records and other information reasonably necessary or advisable for the collection of all amounts due in respect of the Assets and all amounts credited to the Collection Accounts.

The Service Agent will agree in the Service Agency Agreement:

- (a) to provide the Services in accordance with all applicable laws and regulations;
- (b) to provide the Services with the degree of skill and care that it would exercise in respect of its own assets; and
- (c) to service the Assets in accordance with *Shari'a* principles as laid down by its Fatwa & Shari'a Supervisory Board.

### ***Service Agency Liabilities Amounts and Fees***

The Trustee and the Service Agent will agree that any Service Agency Liabilities Amounts (as defined below) incurred by the Service Agent in providing the Services in relation to a Series shall be paid by the Trustee by way of the application of amounts standing to the credit of the Income Collection Account (as defined below) by the Service Agent on the Trustee's behalf in payment of such amounts from time to time (as described below) or otherwise on the final Dissolution Date under the Programme.

For these purposes, **Service Agency Liabilities Amounts** means, in relation to each Series, the amount of any claims, losses, costs and expenses properly incurred or suffered by the Service Agent or other payments made by the Service Agent on behalf of the Trustee in each case in providing the Services during a **Distribution Period** (being a period that corresponds with the relevant Return Accumulation Period under the Certificates), but does not include amounts in respect of any Liquidity Facilities (as defined below).

SIB shall be entitled to receive a fixed fee of U.S.\$100 for acting as Service Agent under the Service Agency Agreement. In addition, following payment of all amounts due and payable under the Certificates of each Series on the final Dissolution Date, the Service Agent will be entitled to retain any amounts that remain standing to the credit of the Income Reserve Collection Account in relation to that Series for its own account as an incentive payment for acting as Service Agent.

### ***Asset Substitutions***

In accordance with the terms of the Service Agency Agreement the Trustee and the Service Agent agree that:

- (a) in relation to each Series and provided no Dissolution Event has occurred and is continuing, SIB may at any time exercise its rights under the Sale Undertaking to substitute (and, upon any Asset ceasing to be an Eligible Asset (as defined in the Purchase Agreement), the Service Agent will procure that SIB uses all reasonable endeavours to so substitute) any one or more of the Assets as SIB may select in accordance with the Sale Undertaking. The new Asset(s) for these purposes will be Eligible Assets of a Value not less than the Value of the Substituted Asset(s) and any such substitution shall otherwise be undertaken on the terms and subject to the conditions of the Service Agency Agreement and the Sale Undertaking; and
- (b) any breach of the obligations in under paragraph (p) of the Services shall not constitute an SIB Event. However such breach shall result in the Service Agent being required to substitute the relevant Forward Asset (the **Impaired Forward Asset**), and to provide the Trustee with one or more substitute Eligible Assets of at least an equal aggregate Value to the Impaired Forward Asset.

### ***Collection Accounts***

In relation to each Series, the Service Agent will maintain three ledger accounts (such accounts being the **Principal Collection Account**, the **Income Collection Account** and the **Income Reserve Collection Account**) in its books (each of which shall be denominated in the Specified

Currency) in which all revenues from the Assets (the **Portfolio Revenues**) will be recorded. The Portfolio Revenues include all rental and other amounts payable by the relevant Asset Obligor under the terms of the relevant Asset Contract, all sale proceeds or consideration, damages, insurance proceeds, compensation or other sums received by the Service Agent or SIB in whatever currency in respect of or otherwise in connection with the relevant Assets and all sums payable in respect of, or received from the liquidation of, any *Shari'a* Compliant Investments. All Portfolio Revenues in relation to each Series will be recorded:

- (a) to the extent that any such amounts comprise amounts in the nature of sale, capital or principal payments, expressed, whenever applicable, as an amount in the Specified Currency (following conversion, if necessary, of any relevant amounts at the spot rate of exchange determined by SIB) (**Portfolio Principal Revenues**) in the Principal Collection Account; and
- (b) to the extent that any such amounts comprise amounts other than Portfolio Principal Revenues (**Portfolio Income Revenues**), in the Income Collection Account.

Amounts standing to the credit of the Income Collection Account relating to each Series will be applied by the Service Agent on each **Distribution Determination Date** (being the Business Day immediately prior to the relevant Periodic Distribution Date under the Certificates of the relevant Series) in the following order of priority:

- (a) first, in repayment of any amounts advanced and outstanding by way of a Liquidity Facility;
- (b) second, in payment of any Service Agency Liabilities Amounts for the Distribution Period ending immediately before the immediately following Distribution Date (being the date which corresponds with the relevant Periodic Distribution Date under the Certificates of the relevant Series);
- (c) third, the Service Agent will pay into the relevant Transaction Account an amount equal to the lesser of the Required Amount payable on the immediately following Periodic Distribution Date and the remaining balance of the Income Collection Account; and
- (d) any amounts still standing to the credit of the Income Collection Account immediately following payment of all of the above amounts shall be debited from the Income Collection Account and credited to the Income Reserve Collection Account.

For the purposes of the Service Agency Agreement, the **Required Amount** will mean an amount equal to the aggregate of the Periodic Distribution Amounts and any other amounts payable by the Trustee in respect of the relevant Certificates on each relevant Periodic Distribution Date.

The Service Agent will be entitled to deduct amounts standing to the credit of the Income Reserve Collection Account at any time and use such amounts for its own account, provided that such amounts shall be repaid by it if so required to fund a Shortfall (as defined and described below).

### ***Shortfalls and Liquidity Facilities***

If on a Distribution Determination Date (after: (i) payment of the relevant amounts standing to the credit of the Income Collection Account into the relevant Transaction Account in accordance with paragraph (c) under "Collection Accounts" above; and (ii) taking into account any other payments made or to be made into the relevant Transaction Account pursuant to any other Transaction Document) there is a shortfall (each a **Shortfall**) between:

- (a) the amounts standing to the credit of the relevant Transaction Account; and
- (b) the Required Amount payable on the immediately following Periodic Distribution Date,

the Service Agent will pay into the relevant Transaction Account on that Distribution Determination Date from the amounts standing to the credit of the Income Reserve Collection Account (if any) an

amount equal to the Shortfall (or such lesser amount as is then standing to the credit of the Income Reserve Collection Account). If any Shortfall still remains after payment to the relevant Transaction Account of the amounts credited to the Income Reserve Collection Account (as described in this paragraph) and after payment to the relevant Transaction Account of all other amounts payable pursuant to any other Transaction Document, the Service Agent may either: (A) provide *Shari'a* compliant funding itself; or (B) procure *Shari'a* compliant funding from a third party, in each case, to the extent necessary, by payment of the same into the relevant Transaction Account, on terms that such funding is repayable: (i) from Portfolio Income Revenues in accordance with the Service Agency Agreement; or (ii) on the date on which the Certificates of the relevant Series are redeemed in full, to ensure that the Trustee receives on each Distribution Determination Date the Required Amount payable by it in accordance with the Conditions of the relevant Series on the immediately following Periodic Distribution Date (such funding in relation to a Series, a **Liquidity Facility**).

### ***Payments under the Service Agency Agreement***

The Service Agent will agree in the Service Agency Agreement that all payments by it under the Service Agency Agreement will be made without any deduction or withholding for or on account of tax unless required by law and (save as set out therein and without prejudice to paragraph (h) under "Services" above) without set-off or counterclaim of any kind and, in the event that there is any deduction or withholding, the Service Agent shall pay all additional amounts as will result in the receipt by the Trustee of such net amounts as would have been received by it if no such deduction or withholding had been made. The payment obligations of the Service Agent under the Service Agency Agreement will be direct, unconditional, unsubordinated and (subject to the provisions of the Purchase Undertaking) unsecured obligations of the Service Agent which rank at least *pari passu* with all other present and future unsubordinated and unsecured obligations of SIB save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

### **Purchase Undertaking**

The Purchase Undertaking will be executed as a deed on 8 April 2013 by SIB in favour of SIB Sukuk Company III Limited (in its capacity as Trustee) and the Delegate, and will be governed by English law. SIB will agree that, subject to the right of the Trustee to bring either an arbitration in London (under the LCIA Arbitration Rules) or proceedings in any other court(s) of competent jurisdiction, the DIFC Courts shall have exclusive either to settle any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Purchase Undertaking.

SIB will, in relation to each Series, irrevocably undertake in favour of the Trustee and the Delegate to purchase all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the relevant Portfolio on the relevant Scheduled Dissolution Date or any earlier Dissolution Date (other than where the Dissolution Date is a Certificateholder Put Option Date, as to which see below) for the relevant Series at the **Portfolio Exercise Price**, which shall be an amount in the Specified Currency equal to the aggregate of:

- (a) the aggregate outstanding face amount of the Certificates of the relevant Series on the relevant Dissolution Date;
- (b) an amount equal to all accrued and unpaid Periodic Distribution Amounts (if any) relating to the Certificates of the relevant Series; and
- (c) an amount equal to the sum of any outstanding: (i) amounts repayable in respect of any Liquidity Facility; and (ii) any Service Agency Liabilities Amounts.

The Trustee will also be entitled to exercise the Purchase Undertaking following any exercise by the Certificateholders of any relevant Series of their right to require the Trustee to redeem their Certificates on a Certificateholder Put Option Date, in which case SIB will be required to purchase

a portion of the relevant Portfolio (such portion to comprise the **Certificateholder Put Option Assets**) with an aggregate Value no greater than the aggregate face amount of the Certificates to be redeemed. The exercise price (the **Certificateholder Put Option Exercise Price** and, together with the Portfolio Exercise Price, each an **Exercise Price**) payable for the Certificateholder Put Option Assets will be an amount in the Specified Currency equal to the aggregate of:

- (a) the product of: (i) the aggregate face amount of the relevant Certificateholder Put Option Certificates; and (ii) the Optional Dissolution Amount (Certificateholder Put) Percentage specified in the applicable Final Terms;
- (b) an amount equal to all accrued and unpaid Periodic Distribution Amounts (if any) relating to the relevant Certificateholder Put Option Certificates; and
- (c) (only where no Certificate of the relevant Series remains outstanding following the exercise of the Certificateholder Put Option) an amount equal to the sum of any outstanding: (i) amounts repayable in respect of any Liquidity Facility; and (ii) any Service Agency Liability Amounts.

If the Delegate exercises any of the options described above, an exercise notice will be required to be delivered by the Delegate under the Purchase Undertaking.

SIB will undertake in the Purchase Undertaking that, to the extent that the sale and purchase or transfer and assignment of any interest in SIB's rights, title, interests, benefits and entitlements in, to and under the Portfolio or the Certificateholder Put Option Assets (the **Relevant Asset**), as the case may be, is not effective in any jurisdiction for any reason, and as a result the Trustee or, as the case may be, the Delegate, is unable to realise in full, or does not actually receive in full, the relevant Exercise Price which is expressed to be due and payable under the Purchase Undertaking at the relevant time, it will (without double counting): (i) make payment of an amount equal to the purchase price paid by the Trustee for the Relevant Asset by way of restitution to the Trustee immediately upon request; and (ii) indemnify fully the Trustee for any shortfall between the amount received by the Trustee under (i) and the amount required for the purpose of redemption in full of the outstanding Certificates of the relevant Series. Accordingly, the amount payable by SIB under this undertaking will not exceed the relevant Exercise Price.

In addition, if SIB fails to pay all or part of any Exercise Price that is due in accordance with the Purchase Undertaking and provided that no Sale Agreement has been entered into, then SIB will agree in the Purchase Undertaking that it will irrevocably, unconditionally and automatically (without the necessity for any notice or any other action) continue to act as Service Agent for the provision of the Services in respect of the relevant Portfolio on the terms and conditions, *mutatis mutandis*, of the Service Agreement.

SIB will expressly declare in the Purchase Undertaking that:

- (a) the relevant Exercise Price represents a fair price for the purchase of all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the relevant Portfolio or the relevant Certificateholder Put Option Assets, as the case may be;
- (b) it shall irrevocably and unconditionally fully accept all or any ownership interest the Trustee may have in the relevant Portfolio or the relevant Certificateholder Put Option Assets, as the case may be, and, accordingly, shall not dispute or challenge all or any ownership interest the Trustee may have in any way; and
- (c) if it breaches any declaration or undertaking set out in (a) or (b) above or if it or any administrator, liquidator or receiver of it disputes or challenges the rights, benefits and entitlements of the Trustee in, to and under the relevant Portfolio or the relevant Certificateholder Put Option Assets, as the case may be, SIB shall (as an independent, severable and separately enforceable obligation) fully indemnify the Trustee for the purpose

of redemption in full of the relevant Certificates and, accordingly, the amount payable under any such indemnity claim will equal the relevant Exercise Price.

In the Purchase Undertaking, SIB undertakes that, so long as any Certificate remains outstanding, SIB will not, and shall ensure that none of its Material Subsidiaries will, create or permit to subsist any Security Interest, other than a Permitted Security Interest, upon the whole or any part of its present or future undertakings, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or any Guarantee of Relevant Indebtedness given by it without:

- (a) at the same time or prior thereto securing equally and rateably therewith its obligations under the Transaction Documents to which it is, in whatever capacity, a party; or
- (b) providing such other Security Interest for those obligations as may be approved by the Certificateholders by an Extraordinary Resolution.

SIB has agreed that each of the following events will constitute an **SIB Event**:

- (a) **Non-payment:** SIB (acting in any capacity) fails to pay any amount payable by it pursuant to any Transaction Document to which it is a party and such failure continues for a period of 14 days of the due date for payment; or
- (b) **Breach of other obligations:** SIB (acting in any capacity) defaults in the performance or observance of any of its covenants and/or obligations under or in respect of the Transaction Documents and such default remains unremedied, unless the default is, in the opinion of the Delegate, capable of remedy and is not, in the opinion of the Delegate, remedied within 28 days after written notice of such default shall have been given to SIB by the Delegate **except that** a failure by SIB (acting in its capacity as Service Agent) to perform or observe the obligations set out in Clause 3.1(c), Clause 3.1 (o) and Clause 3.1(p) of the Service Agency Agreement will not constitute an SIB Event; or
- (c) **Cross Acceleration:**
  - (i) any Indebtedness of SIB or any of its Material Subsidiaries (or any Guarantee given by any of them in respect of any Indebtedness) is not paid when due or, as the case may be, within any originally applicable grace period; or
  - (ii) any such Indebtedness is declared to be or otherwise becomes due and payable prior to its specified maturity (or, in the case of a Guarantee, is called) as a result of an event of default (however described),

provided, however, that it shall not constitute an SIB Event unless the aggregate amount (or its equivalent in U.S. dollars) of all such Indebtedness or Guarantees either alone or when aggregated with all other Indebtedness or Guarantees which shall remain unpaid or unsatisfied or is so declared or becomes due and payable or is called, as the case may be, shall be more than U.S.\$10,000,000 (or its equivalent in any other currency); or

- (d) **Repudiation:** SIB (acting in any capacity) repudiates or challenges the valid, legal, binding and enforceable nature of any or any part of a Transaction Document to which it is a party or does or causes to be done any act or thing evidencing an intention to repudiate or challenge the valid, legal, binding and enforceable nature of any Transaction Document to which it is a party; or
- (e) **Illegality:** at any time it is or will become unlawful for SIB (acting in any capacity) to perform or comply with any or all of its obligations under or in respect of the Transaction Documents or any of the obligations of SIB (acting in any capacity) under the Transaction Documents are not, or cease to be legal, valid, binding and enforceable; or
- (f) **Moratorium:** if SIB for any reason declares a moratorium on the payment of any Indebtedness or in respect of any Guarantee of any Indebtedness given by it; or

- (g) **Failure to take action etc:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order:
- (i) to enable SIB (acting in any capacity) lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Transaction Documents; or
  - (ii) to ensure that those obligations are legal, valid, binding and enforceable,
- is not taken, fulfilled or done and, in each case, is incapable of remedy or, if, in the opinion of the Delegate, is capable of remedy, is not, in the opinion of the Delegate, remedied within 14 days after written notice requiring remedy shall have been given to SIB by the Delegate; or
- (g) **Insolvency etc:** if any one of the following events shall occur and be continuing:
- (i) SIB or any of its Material Subsidiaries takes any corporate action or other steps are taken or legal proceedings are started for its winding-up, nationalisation, dissolution, bankruptcy, administration or reorganisation (whether by way of voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a liquidator, receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of any substantial part or all of its revenues and assets, except for the purposes of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (1) on terms approved by an Extraordinary Resolution of the Certificateholders or (2) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in SIB or another Subsidiary of SIB;
  - (ii) SIB or any of its Material Subsidiaries is (or is deemed by a court or any applicable legislation to be) insolvent or bankrupt or unable to pay all or a material part of its debts as the same fall due, or stops, suspends or threatens to stop or suspend payment of all or a material part of its debts;
  - (iii) SIB or any of its Material Subsidiaries take any action or commences any negotiations or proceedings with a view to (1) the general readjustment or rescheduling of all or a material part of its debts, or (2) any deferment of any of its obligations or (3) making a general assignment or an arrangement or composition or conciliation with or for the benefit of its creditors in respect of all or a material part of its debts; or
  - (iv) SIB or any of its Material Subsidiaries ceases to carry on the whole or a substantial part of its business except for the purposes of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (1) on terms approved by an Extraordinary Resolution of the Certificateholders or (2) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in SIB or another Subsidiary of SIB; or
- (h) **Creditor's process:** any expropriation, execution, attachment, distress, sequestration or other similar legal process made pursuant to a court order or judgment or arising by virtue of any law or regulation affects the whole or any substantial part of the property of SIB or any of its Material Subsidiaries and is not discharged within 30 days; or
- (i) **Unsatisfied judgments:** the aggregate amount of all unsatisfied judgments, decrees or orders of courts or other appropriate law enforcement bodies for the payment of money against SIB or any of its Material Subsidiaries in the aggregate exceeds U.S.\$10,000,000 (or the equivalent thereof in any other currency or currencies) and there is a period of 30 days following the entry thereof or, if later, the date therein specified for payment during which

such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed; or

- (j) **Enforcement of security:** any Security Interest present or future, created or assumed by SIB or any of its Material Subsidiaries in respect of all or a material part of the property, assets or revenues of SIB or any of its Material Subsidiaries, as the case may be, becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person); or
- (k) **Government action:** by or under the authority of any government or governmental body:
  - (i) the management of SIB or any of its Material Subsidiaries is wholly or partially displaced or the authority of SIB or any of its Material Subsidiaries in the conduct of its business is wholly or partially curtailed; or
  - (ii) all or a majority of the issued shares of SIB or any of its Material Subsidiaries or the whole or a substantial part of their respective revenues or assets is seized, nationalised, expropriated or compulsorily acquired; or
- (l) **Analogous event:** any event occurs which has an analogous effect to any of the events referred to in paragraphs (h)(*Insolvency etc*), (i)(*Creditor's process*) and (k)(*Enforcement of security*) (inclusive) above.

For the purposes of the negative pledge to be given by SIB and the SIB Events:

**Guarantee** means, in relation to any Indebtedness or Relevant Indebtedness of any person, any obligation of another person to pay such Indebtedness or Relevant Indebtedness following demand or claim on that person including (without limitation):

- (a) any obligation to purchase such Indebtedness or Relevant Indebtedness;
- (b) any obligation to extend financing, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness or Relevant Indebtedness;
- (c) any indemnity against the consequences of a default in the payment of such Indebtedness or Relevant Indebtedness; and
- (d) any other agreement to be responsible for such Indebtedness or Relevant Indebtedness.

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

**Material Subsidiary** means, at any time, any Subsidiary:

- (a) whose total assets (consolidated, in the case of a Subsidiary which itself has Subsidiaries) exceed 5 per cent. of the consolidated total assets of SIB; or
- (b) whose revenues (consolidated, in the case of a Subsidiary which itself has Subsidiaries) exceed 5 per cent. of the consolidated net operating revenues of SIB.

**Non-recourse Project Financing** means any financing of all or part of the costs of the acquisition, construction or development of any project, provided that (a) any Security Interest given by SIB or the relevant Material Subsidiary, as the case may be, is limited solely to assets of the project, (b) the person providing such financing expressly agrees to limit its recourse to the project financed and the revenues derived from such project as the principal source of repayment for the monies

advanced, and (c) there is no other recourse to SIB or the relevant Material Subsidiary, as the case may be, in respect of any default by any person under the financing.

**Permitted Security Interest** means:

- (a) any Security Interest securing any Relevant Indebtedness of a person existing at the time that such person is merged into, or consolidated with SIB or the relevant Material Subsidiary, as the case may be, provided that such Security Interest was not created in contemplation of such merger or consolidation and does not extend to any other assets or property of SIB or the relevant Material Subsidiary, as the case may be;
- (b) any Security Interest arising by operation of law, provided that such Security Interest is discharged within 30 days of arising;
- (c) any Security Interest existing on any property or assets prior to the acquisition thereof by SIB or the relevant Material Subsidiary, as the case may be, provided that such Security Interest was not created in contemplation of such acquisition and does not extend to other assets or property of SIB or the relevant Material Subsidiary, as the case may be (other than proceeds of such acquired assets or property), and provided that the maximum amount of Relevant Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property or the Relevant Indebtedness incurred solely for the purpose of financing the acquisition of such property; or
- (d) any renewal of or substitution for any Security Interest permitted by any of paragraphs (a) to (c) (inclusive) of this definition, provided that with respect to any such Security Interest the principal amount secured has not increased and the Security Interest has not been extended to any additional assets (other than the proceeds of such assets).

**Relevant Indebtedness** means (a) any Indebtedness, other than Indebtedness incurred in connection with a Non-recourse Project Financing or a Securitisation, which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or are capable of being, quoted, listed, dealt in or traded on any stock exchange, over-the-counter or other securities market, and (b) any Relevant Sukuk Obligation.

**Relevant Sukuk Obligation** means any undertaking or other obligation, other than any undertaking or obligation incurred in connection with a Non-recourse Project Financing or a Securitisation, to pay any money given in connection with the issue of trust certificates or other similar securities, whether or not in return for consideration of any kind, which for the time being are, or are intended to be or are capable of being, quoted, listed, dealt in or traded on any stock exchange, over-the-counter or other securities market.

**Securitisation** means any securitisation of existing or future assets and/or revenues, provided that (a) any Security Interest given by SIB or the relevant Material Subsidiary, as the case may be, in connection therewith is limited solely to the assets and/or revenues which are the subject of the securitisation, (b) each person participating in such securitisation expressly agrees to limit its recourse to the assets and/or revenues so securitised as the principal source of repayment for the money advanced or payment of any other liability, and (c) there is no other recourse to SIB or the relevant Material Subsidiary, as the case may be, in respect of any default by any person under the securitisation.

**Security Interest** means any mortgage, pledge, lien, charge, assignment by way of security, hypothecation or other security interest including, without limitation, any other agreement or arrangement having the effect of conferring security.

**Subsidiary** means in relation to any person (the **first person**) at any particular time, any other person (the **second person**):

- (a) whose affairs and policies the first person controls or has power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise; or
- (b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first person.

SIB will also agree in the Purchase Undertaking that all payments by it under the Purchase Undertaking will be made free and clear of, and without any deduction or withholding for or on account of any Taxes (as defined therein) unless required by law and (save as set out therein) without set off or counterclaim of any kind and, in the event that there is any deduction or withholding, SIB shall pay all additional amounts as will result in the receipt by the Trustee of such net amounts as would have been received by it if no such deduction or withholding had been made. The payment obligations of SIB under the Purchase Undertaking will be direct, unconditional, unsubordinated and (subject to the provisions described above) unsecured obligations of SIB which rank at least *pari passu* with all other present and future unsubordinated and unsecured obligations of SIB save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

### **Sale Undertaking**

The Sale Undertaking will be executed as a deed on 8 April 2013 by SIB Sukuk Company III Limited (in its capacity as Trustee) in favour of SIB and will be governed by English law.

Pursuant to the Sale Undertaking and subject to the Trustee being entitled to redeem the Certificates of the relevant Series for tax reasons in accordance with Condition 10.2, SIB will, by exercising its right under the Sale Undertaking and serving an exercise notice on the Trustee no later than 45 days prior to the Tax Dissolution Date, be able to oblige the Trustee to sell all of its rights, title, interests, benefits and entitlements in, to and under the relevant Portfolio at the relevant Exercise Price. In addition, if the Optional Dissolution Right (Call) is specified in the applicable Final Terms as being applicable, SIB will, by exercising its right under the Sale Undertaking and serving an exercise notice on the Trustee no later than 45 days prior to the relevant Optional Dissolution Date, be able to oblige the Trustee to sell all of its rights, title, interests, benefits and entitlements in, to and under the relevant Portfolio at the relevant Exercise Price.

For these purposes, the **Exercise Price** will be an amount equal to the aggregate of:

- (a) (where the Certificates of the relevant Series are to be redeemed for tax reasons in accordance with Condition 10.2) the aggregate outstanding face amount of the Certificates of the relevant Series on the relevant Dissolution Date or (where the Certificates of the relevant Series are to be redeemed in accordance with Condition 10.3) the product of: (i) the aggregate outstanding face amount of the Certificates of the relevant Series on the relevant Dissolution Date; and (ii) the Optional Dissolution Amount (Call) Percentage specified in the applicable Final Terms;
- (b) an amount equal to all accrued and unpaid Periodic Distribution Amounts (if any) relating to the Certificates; and
- (c) in the case of an exercise by SIB of the Optional Dissolution Right (Call) in respect of all the Certificates or any other exercise by SIB under the Sale Undertaking, an amount equal to the sum of any outstanding: (i) amounts repayable in respect of any Liquidity Facility; and (ii) any Service Agency Liabilities Amounts.

SIB will be able to exercise its rights under the Sale Undertaking to effect the in kind substitution of Assets, subject to any substitute Assets being Eligible Assets of a Value not less than the Value

of the Substituted Assets. SIB will also be able to exercise its rights under the Sale Undertaking (following any purchase of Certificates by SIB or any Subsidiary of SIB pursuant to Condition 13) to provide for the transfer, assignment and conveyance to it of an undivided ownership interest (the **Cancellation Interest**) in the relevant Portfolio calculated as the ratio, expressed as a percentage, of the aggregate face amount of the relevant Certificates to be cancelled (the **Cancellation Certificates**) to the aggregate face amount of the Certificates of the relevant Series immediately prior to the cancellation of such Cancellation Certificates, all as more particularly described in the Sale Undertaking. The Cancellation Interest will be specified in a cancellation notice and will have a Value no greater than the aggregate face amount of the Certificates of the relevant Series so purchased. Transfer of the Cancellation Interest will occur against cancellation of such Certificates by the Principal Paying Agent pursuant to the Conditions.

## Trust Deed

The Master Trust Deed will be entered into on 8 April 2013 between SIB, the Trustee and the Delegate and will be governed by English law. A Supplemental Trust Deed between the same parties will be entered into on the Issue Date of each Series and will also be governed by English law.

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

The Trust Assets in respect of each Series comprise (unless otherwise specified in the relevant Supplemental Trust Deed), *inter alia*, the Trustee's rights, title, interest and benefit, present and future, in, to and under the relevant Portfolio, its rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than: (i) in relation to any representations given to the Trustee by SIB pursuant to any of the Transaction Documents and any rights which have been expressly waived by the Trustee in any of the Transaction Documents; and (ii) the covenant given to the Trustee pursuant to Clause 13.1 of the Master Trust Deed) and any amounts standing to the credit of the relevant Transaction Account.

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

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

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

In the Master Trust Deed, the Trustee by way of security for the performance of all covenants, obligations and duties of the Trustee to the Certificateholders will irrevocably and unconditionally:

- (a) appoints the Delegate to be its attorney and in its name and on its behalf to execute, deliver and perfect all documents and to exercise all the present and future powers, trusts, authorities and discretions (including but not limited to the authority to request instructions from any Certificateholders and the power to sub-delegate and to make any determinations to be made under the Trust Deed) vested in the Trustee by the Trust Deed and the other Transaction Documents that the Delegate may consider to be necessary or desirable upon the occurrence of a Dissolution Event or a Potential Dissolution Event; and

- (b) subject to its being indemnified and/or secured and/or prefunded to its satisfaction to perform the present and future duties, powers, authorities and discretions vested in the Trustee by the relevant provisions of the Trust Deed and any of the other Transaction Documents (provided that no obligations, duties, liabilities or covenants of the Trustee pursuant to this Master Trust Deed or any other Transaction Document shall be imposed on the Delegate by virtue of such delegation) and make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Trust Deed.

The delegation made under the Master Trust Deed shall become effective from the date of the Master Trust Deed provided that in no circumstances will such delegation result in the Delegate holding on trust the Trust Assets. However, the appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and will not affect the Trustee's continuing role and obligations as trustee.

The Trustee will undertake in the Master Trust Deed that, following it becoming aware of the occurrence of a Dissolution Event in respect of any Series and subject to Condition 14 it shall: (a) promptly notify the relevant Certificateholders of the occurrence of such Dissolution Event. Subject to the Delegate being indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing, the Delegate may take all such steps as are necessary to enforce the obligations of SIB (in whatever capacity it is acting) under the relevant Trust Deed and any other Transaction Document to which SIB (in whatever capacity) is a party.

The Master Trust Deed specifies, *inter alia*, that in relation to each Series:

- (i) following enforcing or realising the relevant Trust Asset and distributing the net proceeds of the Trust Assets in respect of the relevant Series to the Certificateholders in accordance with the Conditions and the relevant Trust Deed the obligations of the Trustee in respect of the Certificates shall be satisfied and the right of the Certificateholders to receive any further sums shall be extinguished and neither the Trustee nor the Delegate shall be liable for any further sums and, accordingly, the relevant Certificateholders may not take any action against the Trustee, the Delegate or any other person to recover any such sum or asset in respect of the relevant Certificates or the relevant Trust Assets;
- (ii) no Certificateholder shall be entitled to proceed directly against the Trustee and/or SIB, or provide instructions (not otherwise permitted by the Trust Deed) to the Delegate to proceed against the Trustee and/or SIB under any Transaction Document unless: (i) the Delegate having become bound so to proceed, fails to do so within a reasonable period of becoming so bound and such failure is continuing; and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders of the relevant Series who propose to proceed directly against the Trustee or SIB, as the case may be) holds at least one-fifth of the then aggregate outstanding face amount of the Certificates of the relevant Series. Under no circumstances shall the Delegate or any Certificateholders have any right to cause the sale or other disposition of any of the relevant Trust Assets (other than pursuant to the Transaction Documents), and the sole right of the Delegate and the Certificateholders against the Trustee and SIB shall be to enforce their respective obligations under the Transaction Documents;
- (iii) the Delegate shall not be bound in any circumstances to take any action to enforce or realise the relevant Trust Assets or take any action against the Trustee and/or SIB under any Transaction Document unless directed or requested to do so: (a) by an Extraordinary Resolution; or (b) in writing by the holders of at least one-fifth of the then aggregate outstanding face amount of the Certificates of the relevant Series and in either case then only if it is indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing provided that the Delegate shall not be held liable for the consequences of exercising its discretion or taking

any such action and may do so without having regard to the effect of such action on individual Certificateholders; and

- (iv) after enforcing or realising the relevant Trust Assets and distributing the net proceeds of the relevant Trust Assets in accordance with the terms of the relevant Trust Deed, the obligations of the Trustee and the Delegate in respect of the Series shall be satisfied and no Certificateholder may take any further steps against the Trustee and the Delegate to recover any further sums in respect of the relevant Series and the right to receive any such sums unpaid shall be extinguished. In particular, no holder of the Certificates of the relevant Series shall be entitled in respect thereof to petition or to take any other steps for the winding-up of SIB Sukuk Company III Limited.

## TAXATION

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

### **United Arab Emirates**

*The following summary of the anticipated tax treatment in the UAE in relation to payments on the Certificates is based on the taxation law in force at the date of this Base Prospectus, and does not constitute legal or tax advice. Prospective investors should be aware that the relevant fiscal rules and practice and their interpretation may change.*

There is currently in force in Sharjah legislation a general corporate taxation regime, the Sharjah Income Tax Decree 1969 (as amended). The regime is, however, not enforced save in respect of companies active in the hydrocarbon industry, some related service industries and branches of foreign banks operating in the UAE. It is not known whether the legislation will or will not be enforced more generally or within other industry sectors in the future. Under current legislation, there is no requirement for withholding or deduction for or on account of UAE or Sharjah taxation in respect of payments made under the Transaction Documents. If any such withholding or deduction is required to be made in respect of payments due by SIB under any Transaction Document to which it is party, SIB has undertaken to gross-up the payments due by it accordingly. If any such withholding or deduction is required to be made in respect of payments due by the Trustee under the Certificates: (i) the Trustee has undertaken to gross-up the payment(s) accordingly (subject to certain limited exceptions); and (ii) SIB has undertaken to pay such additional amounts to the Trustee to enable it to discharge such obligation.

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

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

### **Cayman Islands**

*The following is a discussion on certain Cayman Islands income tax consequences of an investment in Certificates to be issued under the Programme. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances and does not consider tax consequences other than those arising under Cayman Islands law.*

Under existing Cayman Islands laws payments on Certificates to be issued under the Programme will not be subject to taxation in the Cayman Islands and no withholding will be required on the payments to any holder of Certificates nor will gains derived from the disposal of Certificates be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance or gift tax.

Subject as set out below, no capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Certificates. An instrument transferring title to any Certificates, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. An annual registration fee is payable by the Trustee to the Cayman Islands Registrar of Companies which is calculated by reference to the nominal amount of its authorised capital. At current rates, this annual

registration fee is approximately U.S.\$853.66. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

### **EU Savings Directive**

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

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

## SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (the **Programme Agreement**) dated 8 April 2013, agreed with the Trustee and SIB a basis upon which they or any of them may from time to time agree to purchase Certificates. Any such agreement will extend to those matters stated under “Terms and Conditions of the Certificates”. In the Programme Agreement, each of the Trustee and SIB has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue, offer and sale of Certificates under the Programme.

### SELLING RESTRICTIONS

#### United States

The Certificates have not been nor will be registered under the Securities Act nor any state securities law, and the Certificates may not be offered, sold or delivered within the United States or to or for the account or benefit of, any U.S. person except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Certificates: (a) as part of their distribution at any time; or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Certificates on a syndicated basis, the relevant lead manager, of all Certificates of the Series of which such Certificates are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Certificates during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Certificates within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Certificates, an offer or sale of such Certificates within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

#### The Republic of Ireland

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not underwrite, offer, place or do anything with respect to the Certificates in or involving the Republic of Ireland:

- (a) otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007, as amended (the **MiFID Regulations**), including, without limitation, Part 6, 7 and 12 thereafter and the provisions of the Investor Compensation Act 1998, and, if acting under and within the terms of an authorisation to do so for the purposes of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments (**MiFID**) it has complied with any applicable requirements of the MiFID Regulations or as imposed or deemed to have been imposed, by the Irish Central Bank pursuant to the MiFID Regulations and, if acting within the terms of an authorisation granted to it for the purposes of Directive 2006/48/EC of the European Parliament and the Council of 14 June 2006 relating to the taking up and the pursuit of the business of credit institutions as amended, replaced or consolidated from time to time, it has complied with the provisions of the Central Bank Acts 1942-2004 (as amended) and any codes of conduct or practice made under Section 117(1) of the Central

Bank Act 1989 of Ireland (as amended) and any applicable requirements of the MiFID Regulations or as imposed pursuant to the MiFID Regulations;

- (b) otherwise than in conformity with the provision of the Market Abuse (Directive 2003/6/EC) Regulations 2005 of Ireland and any rules issued under Section 34 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 of Ireland by the Irish Central Bank; and
- (c) otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 of Ireland and any rules issued under Section 51 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 of Ireland by the Irish Central Bank, and that no Certificates will be sold with a maturity of less than 12 months except in full compliance with Notice BSD C 01/02 issued by the Irish Central Bank.

### **Public Offer Selling Restriction under the Prospectus Directive**

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

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Trustee or SIB for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Certificates referred to above shall require the Trustee, SIB or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression “**an offer of Certificates to the public**” in relation to any Certificates in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Certificates to be offered so as to enable an investor to decide to purchase or subscribe for Certificates, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

### **United Kingdom**

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

- (a) in relation to any Certificates which have a maturity of less than one year: (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any Certificates other than to persons whose ordinary

activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Certificates would otherwise constitute a contravention of section 19 of the FSMA by the Trustee;

- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Certificates in circumstances in which section 21(1) of the FSMA does not apply to the Trustee or SIB; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Certificates in, from or otherwise involving the United Kingdom.

### **Cayman Islands**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make any offer or invitation to the public in the Cayman Islands to subscribe for any Certificates.

### **Japan**

The Certificates have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Certificates, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### **United Arab Emirates (excluding the Dubai International Financial Centre)**

Each Dealer has represented and agreed, and each Dealer appointed under the Programme will be required to represent and agree, that the Certificates to be issued under the Programme have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

### **Dubai International Financial Centre**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Certificates to be issued under the Programme to any person in the Dubai International Financial Centre unless such offer is:

- (a) an “Exempt Offer” in accordance with the Market Rules 2012 of the Dubai Financial Services Authority (the **DFSA**); and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

## **Kingdom of Saudi Arabia**

Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a **Saudi Investor**) who acquires Certificates pursuant to any offering should note that the offer of Certificates is a private placement under Article 10 or Article 11 of the “Offers of Securities Regulations” as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the **KSA Regulations**). The Certificates may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to “Sophisticated Investors” under Article 10 of the KSA Regulations or by way of a limited offer under Article 11 of the KSA Regulations. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer of Certificates will comply with the KSA Regulations.

Each offer of Certificates shall not therefore constitute a “public offer” pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement under Article 10 and/or Article 11 of the KSA Regulations may not offer or sell those Certificates to any person unless the offer or sale is made through an authorised person appropriately licensed by the Saudi Arabian Capital Market Authority and: (a) the Certificates are offered or sold to a Sophisticated Investor; (b) the price to be paid for the Certificates in any one transaction is equal to or exceeds SR 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

## **Kingdom of Bahrain**

Each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake, that it will only make this offer available on a private placement basis to persons in Bahrain who are “accredited investors”.

For this purpose, an “accredited investor” means:

- (a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more;
- (b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$1,000,000; or
- (c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

## **State of Qatar (excluding the Qatar Financial Centre)**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, directly or indirectly, any Certificates in the State of Qatar, except (i) in compliance with all applicable laws and regulations of the State of Qatar; and (ii) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar.

## **Singapore**

This Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and that it will

not offer or sell any Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, nor will it circulate or distribute this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Certificates, whether directly or indirectly, to any person in Singapore other than: (a) to an institutional investor pursuant to Section 274 of the SFA; or (b) to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (c) pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

## **Hong Kong**

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

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates other than: (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **SFO**) and any rules made under the SFO; or (iii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, in each case whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to any Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

## **Malaysia**

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

- (a) this Base Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia (the **CMSA**); and
- (b) accordingly, the Certificates have not been and will not be offered, sold or delivered, and no invitation to subscribe for or purchase the Certificates has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons or in categories falling within Schedule 6 (or Section 229(1)(b)), Schedule 7 (or Section 230(1)(b)), and Schedule 8 (or Section 257(3)) of the CMSA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Dealers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

## **General**

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

None of the Trustee, SIB, the Delegate and any of the Dealers represents that Certificates may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale. Persons into whose possession this Base Prospectus or any Certificates may come must inform themselves about, and observe, any applicable restrictions on the distribution of this Base Prospectus and the offering and sale of Certificates.

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

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Certificates have been duly authorised by a resolution of the Board of Directors of the Trustee dated 1 April 2013. The Trustee has obtained all necessary consents, approvals and authorisations in the Cayman Islands in connection with the issue and performance of Certificates to be issued under the Programme and the execution and performance of the Transaction Documents to which it is a party.

The entry into of the Transaction Documents to which it is a party was authorised by a resolution of the shareholders of SIB dated 12 March 2013, and by a resolution of the Board of Directors of SIB dated 3 March 2013.

### Listing

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Certificates, and is not itself seeking admission of the Certificates to the Official List of the Irish Stock Exchange or to trading on the Regulated Market of the Irish Stock Exchange for the purposes of the Prospectus Directive.

It is expected that each Series of Certificates which is to be admitted to the Official List and to trading on the Regulated Market will be admitted separately as and when issued, subject only to the issue of a Global Certificate initially representing the Certificates of such Series.

This Base Prospectus has been approved by the Irish Central Bank as competent authority under the Prospectus Directive. Such approval relates only to the Certificates which are to be admitted to trading on the Regulated Market or any other MiFID Regulated Markets or which are to be offered to the public in any Member State. The Irish Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for Certificates issued under the Programme during the 12 months from the date of this Base Prospectus to be admitted to listing on the Official List and admitted to trading on the Regulated Market. However, Certificates may be issued pursuant to the Programme which will not be listed on the Irish Stock Exchange or any other stock exchange or which will be listed on such stock exchange as the Trustee, SIB and the relevant Dealer may agree.

### Significant or Material Change

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

There has been no significant change in the financial or trading position of SIB and its subsidiaries, taken as a whole, since 31 December 2012 and there has been no material adverse change in the financial position or prospects of SIB and its subsidiaries, taken as a whole, since 31 December 2012.

### Litigation

The Trustee is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Trustee is aware) in the 12 months preceding the date of this Base Prospectus which may have or have in such period had a significant effect on the financial position or profitability of the Trustee.

Neither SIB nor any of its subsidiaries has been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which SIB is

aware) during the 12 months preceding the date of the Base Prospectus that may have or have in such period had a significant effect on the financial position or profitability of SIB and/or its subsidiaries, respectively.

### **Documents Available**

For the period of 12 months following the date of this Base Prospectus, physical copies (and English translations where the documents in question are not in English) of the following documents will, when published, be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the offices of the Trustee and the Paying Agent for the time being in London:

- (a) the Transaction Documents including each Supplemental Trust Deed and each Supplemental Purchase Contract in relation to each Series (save that any such documents relating to a Series which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Certificate and such holder must produce evidence satisfactory to the Trustee and the Principal Paying Agent as to its holding of the relevant Certificates and identity);
- (b) the Memorandum and Articles of Association of the Trustee and the constitutional documents (with an English translation thereof) of SIB;
- (c) the consolidated audited financial statements of SIB in respect of the two financial years ended 31 December 2012 and 31 December 2011 together with the audit reports prepared in connection therewith. SIB currently prepares audited consolidated accounts on an annual basis. The Trustee is not required to, and does not intend to, publish any annual financial statements;
- (d) the most recently published unaudited condensed consolidated interim financial statements of SIB, together with any audit or review reports prepared in connection therewith. SIB currently prepares unaudited condensed consolidated interim financial statements on a quarterly basis. The Trustee is not required to, and does not intend to, publish any interim financial statements;
- (e) this Base Prospectus; and
- (f) any future supplements to the Base Prospectus including Final Terms (save that a Final Terms relating to a Certificate which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Certificate and such holder must produce evidence satisfactory to the Trustee and the Principal Paying Agent as to its holding of the relevant Certificates and identity) and any other documents incorporated herein or therein by reference (free of charge).

### **Clearing Systems**

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

The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

**Auditors**

The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint any auditors.

The auditors of SIB are KPMG, chartered accountants, who have audited SIB's accounts, without qualification, in accordance with IFRS for each of the two financial years ended on 31 December 2011 and 31 December 2012. KPMG has no material interest in SIB.

**Dealers transacting with SIB**

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

## FINANCIAL INFORMATION

Directors' report in respect of the consolidated financial statements of SIB and its subsidiaries as at and for the year ended 31 December 2012 .....	F-3
Auditors' audit report in respect of the consolidated financial statements of SIB and its subsidiaries as at and for the year ended 31 December 2012 .....	F-4
Consolidated financial statements of SIB and its subsidiaries as at and for the year ended 31 December 2012 .....	F-6
Directors' report in respect of the consolidated financial statements of SIB and its subsidiaries as at and for the year ended 31 December 2011 .....	F-44
Auditors' audit report in respect of the consolidated financial statements of SIB and its subsidiaries as at and for the year ended 31 December 2011 .....	F-45
Consolidated financial statements of SIB and its subsidiaries as at and for the year ended 31 December 2011 .....	F-46

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**SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES**

**DIRECTORS' REPORT AND CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

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# SHARJAH ISLAMIC BANK

## Directors' Report

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of SHARJAH ISLAMIC BANK ("the Bank") and its subsidiaries ("the Group") for the year ended 31<sup>st</sup> December 2012.

### Financial Highlights

The Group has reported a net profit of AED 272.0 million for year ended 31<sup>st</sup> December 2012 compared to AED 251.1 million for the corresponding prior year, an increase of 8.3%.

Compared to December 2011, total assets increased by AED 583.1 million to reach AED 18.3 billion, an increase of 3.3%, financing receivables and Ijarah receivable increased by 3.1% (AED 321.9 million) to reach AED 10.7 billion and customer deposit increased by 9% (AED 935.7 million) to reach AED 11.3 billion.

The Directors propose to the Shareholders a cash dividend of 6% of the par value of share (AED 0.06 per share) amounting to AED 145.5 million (compared to cash dividend of AED 145.5 million AED 0.06 per share on 2011).

The Directors propose the following appropriations for 2012:-

	AED million
1) Proposed cash dividend	145.5
2) Zakat	51.1
3) Proposed Directors' fees	2.4
Total	199.0

After carrying forward the retained earnings from last year and the above proposed appropriations, total shareholders' funds will amount to AED 4.3 billion.

### Directors:-

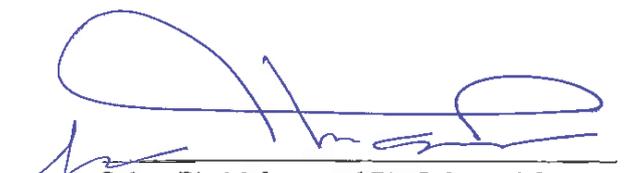
H.H. Shaikh Sultan Bin Mohammed Bin Sultan Al Qassimi	Chairman
H.E. Abdul Rahman Mohammed Nasser Al Owais	Vice Chairman
Mr. Othman Mohammed Sharif Zaman	Member
Mr. Ahmed Ghanim Al Suwaidi	Member
Mr. Ali Bin Salim Al Mazrou	Member
Mr. Ahmed Mohamed Obaid Al Shamsi	Member
Mr. Jassar Dakhil Al Jassar	Member
Mr. Mohammad N. Al Fouzan	Member

### Auditors:-

KPMG were appointed as auditors of SHARJAH ISLAMIC BANK for the year 2012 at the Annual General Meeting held on 12<sup>th</sup> March 2012.

KPMG expressed their willingness for their re-appointment for the year ending 31 December 2013.

On behalf of the board



**Sultan Bin Mohammed Bin Sultan Al Qassimi**  
Chairman  
17<sup>th</sup> January 2013



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Sheikh Zayed Road  
Dubai  
United Arab Emirates

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Fax +971 (4) 330 1515  
Website [www.ae-kpmg.com](http://www.ae-kpmg.com)

## **Independent Auditors' Report**

**The Shareholders  
Sharjah Islamic Bank PJSC**

### **Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of Sharjah Islamic Bank PJSC ("the Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income (comprising a consolidated statement of comprehensive income and a separate consolidated income statement), changes in equity and cash flows for the year then ended, and notes, comprising 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.

### **Auditors' responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider internal control relevant to the 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.



**Independent Auditors' Report (continued)**

**Report on Other Legal and Regulatory Requirements**

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law No. 8 of 1984 (as amended), Union Law No. 10 of 1980 and the Articles of Association of the Bank; that proper financial records have been kept by the Bank; and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Bank's financial records. We are not aware of any violation of the above mentioned Laws and the Articles of Association having occurred during the year ended 31 December 2012, which may have had a material adverse effect on the business of the Bank or its financial position.

KPMG

Vijendra Nath Malhotra

Registration No. 48B

17 January 2013

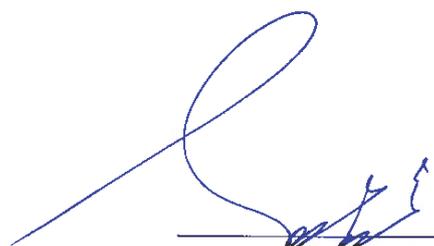
**SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2012**

(Currency: Thousands of U.A.E. Dirhams)

	Notes	2012	2011
<b>Assets:</b>			
Cash and balances with banks and financial institutions	6	1,783,237	1,770,432
International murabaha and wakalah with financial institutions	7	2,372,410	2,341,534
Financing receivables	8	2,778,882	2,370,688
Ijarah receivable	9	7,970,489	8,056,746
Investments securities	11	856,681	734,536
Investment properties	12	223,288	191,044
Properties held for sale	13	1,083,034	1,044,989
Other assets	14	394,381	408,198
Property and equipment	15	853,827	814,975
<b>Total assets</b>		<b>18,316,229</b>	<b>17,733,142</b>
<b>Liabilities:</b>			
Customers' deposits	16	11,334,541	10,398,853
Due to banks	17	470,190	900,972
Sukuk payable	18	1,464,457	1,463,062
Other liabilities	19	523,377	413,742
Zakat payable		79,766	150,355
<b>Total liabilities</b>		<b>13,872,331</b>	<b>13,326,984</b>
<b>Shareholders' equity:</b>			
Share capital	20	2,425,500	2,425,500
Legal reserve	23	1,328,226	1,327,617
Statutory reserve	23	89,008	89,008
Fair value reserve	23	(34,470)	(20,481)
Retained earnings		635,634	584,514
<b>Total shareholders' equity:</b>		<b>4,443,898</b>	<b>4,406,158</b>
<b>Total liabilities and shareholders' equity</b>		<b>18,316,229</b>	<b>17,733,142</b>

The consolidated financial statements were authorized for issue in accordance with a resolution of Directors on 17<sup>th</sup> January 2013 and signed on its behalf by:

  
 Sultan Bin Mohammed Bin Sultan Al Qassimi  
 Chairman

  
 Mohammed Ahmed Abdullah  
 Chief Executive Officer

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

The independent auditors' report is set out on page 3 and 4.

**SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Currency: Thousands of U.A.E. Dirhams)

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
Income from financing and leasing		695,234	731,066
Profit on sukuks		(70,715)	(49,112)
Fees, commission and other income	24	187,612	147,858
<b>Total income</b>		<u>812,131</u>	<u>829,812</u>
General and administrative expenses	25	<u>(336,578)</u>	<u>(315,808)</u>
<b>Net operating income</b>		475,553	514,004
Provisions - net of recoveries	26	(37,391)	(45,873)
<b>Net profit before distribution to depositors</b>		<u>438,162</u>	<u>468,131</u>
Distribution to depositors	27	(166,159)	(217,010)
<b>Net profit for the year</b> (Attributable to the shareholders of the Bank)		<u>272,003</u>	<u>251,121</u>
Basic and diluted earnings per share (U.A.E. Dirhams)	28	<u>0.11</u>	<u>0.10</u>

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

The independent auditors' report is set out on page 3 and 4.

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**SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPERHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Currency: Thousands of U.A.E. Dirhams)

	<u>2012</u>	<u>2011</u>
Net profit for the year (Attributable to the shareholders of the Bank)	272,003	251,121
<b>Other comprehensive income</b>		
Net change in fair value reserve	(35,191)	(7,157)
<b>Total comprehensive income for the year</b> (Attributable to the shareholders of the Bank)	<u>236,812</u>	<u>243,964</u>

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

The independent auditors' report is set out on page 3 and 4.

**SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Currency: Thousands of U.A.E. Dirhams)

	2012	2011
<b>Cash flows from operating activities:</b>		
Net profit for the year	272,003	251,121
Adjustments:		
Depreciation	24,416	25,226
Amortization of sukuk issuance cost	1,395	1,496
Provision on customer receivables	45,808	36,345
Provision on subsidiaries	(8,447)	6,735
Provision for impairment on investment securities	441	1,763
Revaluation loss/gain on investment properties	(2,200)	1,869
<b>Operating profit before changes in operating assets and liabilities</b>	<b>333,416</b>	<b>324,555</b>
<b>Changes in operating assets and liabilities:</b>		
Change in reserve with Central Bank	(48,465)	(79,426)
Change in international murabaha and wakalah with financial institution	(139,250)	(65,814)
Change in financing receivables	(446,900)	(288,891)
Change in Ijarah receivable	79,155	(521,106)
Change in other assets	22,266	(54,156)
Change in customers' deposits	935,688	20,719
Change in due to banks	(430,782)	223,883
Zakat payable	(121,731)	(37,108)
Change in other liabilities	107,235	110,694
<b>Net cash provided / (used in) by operating activities</b>	<b>290,632</b>	<b>(366,650)</b>
<b>Cash flows from investing activities:</b>		
Acquisition of property and equipment	(63,269)	(19,326)
Acquisition in investment properties - net	(30,044)	(11,968)
Acquisition in properties held for sale - net	(38,045)	(28,314)
Change in investments securities - net	(157,778)	(273,660)
<b>Net cash used in investing activities</b>	<b>(289,136)</b>	<b>(333,268)</b>
<b>Cash flows from financing activity:</b>		
Proceeds from sukuk	-	635,735
Cash dividends	(145,530)	(133,402)
<b>Net cash (used in) / provided by financing activity</b>	<b>(145,530)</b>	<b>502,333</b>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(144,034)</b>	<b>(197,585)</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>3,099,539</b>	<b>3,297,124</b>
<b>Cash and cash equivalents, end of year (note 29)</b>	<b>2,955,505</b>	<b>3,099,539</b>

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

The independent auditors' report is set out on page 3 and 4.

**SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Currency: Thousands of U.A.E. Dirhams)

	ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK					
	Share capital	Legal reserves	Statutory reserves	Fair value reserve	Retained earnings	Total shareholders' equity
As at 1 January 2011	2,425,500	1,327,617	89,008	(15,426)	521,166	4,347,86
fair value adjustment - IFRS - 9	-	-	-	2,102	(2,102)	
As at 1 January 2011 (Restated)	2,425,500	1,327,617	89,008	(13,324)	519,064	4,347,86
<b>Total comprehensive income for the year</b>						
Profit for the year	-	-	-	-	251,121	251,12
<b>Other comprehensive income</b>						
Net change in fair value reserve	-	-	-	(7,157)	-	(7,157)
Total comprehensive income for the year	-	-	-	(7,157)	251,121	243,96
<b>Transactions with owners recorded directly in equity</b>						
Cash dividends paid	-	-	-	-	(133,402)	(133,402)
Zakat	-	-	-	-	(49,799)	(49,799)
Directors' remuneration	-	-	-	-	(2,470)	(2,470)
Total transactions with owners	-	-	-	-	(185,671)	(185,671)
As at 31 December 2011	2,425,500	1,327,617	89,008	(20,481)	584,514	4,406,15
As at 1 January 2012	2,425,500	1,327,617	89,008	(20,481)	584,514	4,406,15
<b>Total comprehensive income for the year</b>						
Profit for the year	-	-	-	-	272,003	272,003
<b>Other comprehensive income</b>						
Net change in fair value reserve	-	-	-	(35,191)	-	(35,191)
Total comprehensive income for the year	-	-	-	(35,191)	272,003	236,81
<b>Transactions with owners recorded directly in equity</b>						
Fair value adjustment IFRS 9	-	-	-	21,202	(21,202)	
Cash dividends paid (note 21)	-	-	-	-	(145,530)	(145,530)
Transfer to legal reserve	-	609	-	-	(609)	
Zakat	-	-	-	-	(51,142)	(51,142)
Directors' remuneration (note 22)	-	-	-	-	(2,400)	(2,400)
Total transactions with owners	-	609	-	21,202	(220,883)	(199,072)
As at 31 December 2012	2,425,500	1,328,226	89,008	(34,470)	635,634	4,443,89

In accordance with the Ministry of Economy & Commerce interpretation of Article 118 of Commercial Law No. 8 of 1984, Directors' remuneration has been treated as an appropriation from equity.

The accompanying notes form an integral part of these consolidated financial statements.  
The independent auditors' report is set out on page 3 and 4.

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**SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
(Currency: Thousands of U.A.E. Dirhams)

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**1. Legal status and activities**

SHARJAH ISLAMIC BANK ("the Bank") was incorporated in 1975 as a public joint stock company by an Emiri Decree issued by His Highness the Ruler of Sharjah, United Arab Emirates and its listed in Abu Dhabi stock securities. The Bank is engaged in banking activities, financing and investing activities in accordance with its articles of incorporation, Islamic Shari'a principles and regulation of the Central Bank of UAE ("the CBUAE"), which are carried out through its 26 branches (2011: 25 branches) established in United Arab Emirates.

At the extraordinary shareholders' meeting held on 18<sup>th</sup> March 2001 a resolution was passed to transform the Bank's activities to be in full compliance with the Islamic Shari'a rules and principles. The entire process was completed on 30<sup>th</sup> June 2002 ("the transformation date"). As a result the Bank transformed its conventional banking products into Islamic banking products during the 6-month period ended 30<sup>th</sup> June 2002 after negotiation and agreement with its customers. Ijarah receivable

The consolidated financial statements of the Group comprise the Bank and its fully owned subsidiaries incorporated in United Arab Emirates, Sharjah National Hotels (SNH), Sharjah Islamic Financial Service (SIFS), Contact Marketing and ASAS Real Estate (all together referred to as "the Group", also refer note 3). SNH through its divisions is engaged in operating hotels and resorts, catering and related services, whereas SIFS is involved in conducting intermediation in dealing in local market Shari'a compliant shares. Contact Marketing providing certain support services to the Bank. ASAS Real Estate is involved in the management of Bank's real estate portfolio.

The registered office of the Bank is Post Box No.4, Sharjah, United Arab Emirates.

**2. Disclosure policy**

The Group has laid down the disclosure policy to ensure compliance with all applicable laws concerning disclosure of material non public information, including International Financial Reporting Standards, the CBUAE (lead regulator), BASEL II Pillar 3 guidelines laid down by the CBUAE, Emirates Securities and Commodities Authority (ESCA) and Abu Dhabi Financial Market (ADX).

The following are the key features of the Group's disclosure policy concerning disclosure of financial information (consolidated basis):

**Materiality thresholds**

Information is considered material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions and/or any material information that might affect the share price. The Group, in order to ensure adequate disclosure lays down a materiality threshold, so that no material information is omitted or misstated; at the same time it does not jeopardize its competitive position.

**Internal controls**

In order to ensure true and fair disclosure, the Group has established controls including detailed procedures for finalisation and review of accounting and financial disclosures. In addition the consolidated financial statements are subject to quarterly reviews and audit procedures by the Group's external auditors.

**Frequency and medium of disclosure**

Interim consolidated financial results are disclosed on a quarterly basis while complete consolidated financial statements complying with the requirements of IFRS, Basel II Pillar 3 and other guidelines from the CBUAE is made on an annual basis. Disclosures of material non public financial information are made by the Financial Control Department of the Group in coordination with Marketing Department through the following mediums:

- Sending reviewed quarterly and annual audited consolidated financial statements along with Directors' report to ADX and ESCA;
- Hosting quarterly and annual consolidated financial statements on the Group's website and
- Publication of annual audited consolidated financial statements in Arabic news papers after the approval in the Annual General Meeting (AGM).

### **3. Basis of preparation**

#### **a. Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting standards ("IFRS") as issued by International Accounting Standard Board ("IASB"), and comply with the guidance of the CBUAE, Islamic Shari'a principles and applicable requirements of the Federal laws relating to Islamic Banks.

The Group had adopted IFRS 9, financial instruments in 2010 in advance of its effective date. The Group had chosen 1 April 2010 as its date of initial application.

#### **b. Basis of measurement**

The consolidated financial statements have been prepared on the historical basis except for the following that are measured at fair value:

- i) financial assets at fair value through profit or loss (FVTPL);
- ii) financial assets at fair value through other comprehensive income (FVTOCI); and
- iii) investment properties.

#### **c. Functional and reporting currency**

These consolidated financial statements of the Group have been prepared in UAE Dirhams (AED), which is the Group's functional currency, rounded to the nearest thousand.

#### **d. Use of estimates and judgments**

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. In particular these estimates and judgements relate to impairment losses on financing receivables, Ijarah receivable and amortised cost, valuation of financial asset FVTPL and FVTOCI, provisions for doubtful debts and slow moving inventories (refer note 30).

### **4. Summary of significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group's entities.

#### **a. Basis of consolidation**

##### **i) Subsidiaries**

Subsidiaries are the entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

##### **ii) Funds management**

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's funds management is set out in note 34.

##### **iii) Transactions eliminated on consolidation**

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

##### **iv) Special purpose entities**

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific financing transaction. The consolidated financial special purpose entities are included in the Group's consolidated financial statement where the substance of the relationship is the Group controls the special purpose entity.

4. Summary of significant accounting policies (continued)

b. Non-derivative financial instruments

i. Financial assets and liabilities

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

Investments in equity instruments are classified as financial assets at fair value through profit or loss, unless the Group designates them as an investment that is not held for trading and are accordingly carried as at fair value through other comprehensive income (FVTOCI).

Financial assets measured at FVTPL are initially recognized and subsequently measured at fair value, with any gains or losses arising in re-measurement recognised in the consolidated statement of income. All transaction costs are charged to statement of income.

Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated statement of income.

*Financial assets at fair value through other comprehensive income (FVTOCI)*

At initial recognition, the Group can make an irrevocable election (on instrument by instrument basis) to designate other investments under the classification of FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

Financial assets measured 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.

Dividends on these investments are recognised in the consolidated statement of income.

*Financial assets measured at amortised costs*

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- 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 financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Financial assets measured at amortised costs are initially measured at fair value plus transaction costs. Subsequently, they are measured at amortised cost using the effective yield method less any impairment, with profit recognised on an effective yield basis in the consolidated statement of income.

Subsequent to the initial recognition, the Group is required to reclassify investments from amortised cost to FVTPL, if the objective of the business model changes so that the amortised cost criteria is no longer met.

*Financing receivables*

Financing receivables are non derivative financial assets with fixed or determinable payment that other than investment securities that are not held for trading. They arise when the Bank provides funds directly to a debtor with no intention of trading in the granted facilities. Financing receivables are initially measured at fair value and subsequently measured at their amortised cost. These are reported net of impairment provisions, if any, to reflect the estimated recoverable amounts. The financing receivables mainly comprise Murabaha and Qard Hasan.

Murabaha is an agreement for sale of commodities purchased by the Bank based on the promise of the customer to buy the commodities on a cost plus the agreed profit basis.

Qard Hasan receivables are non-profit bearing financing receivables whereby the customer borrows funds for a period of time with an understanding that the same amount shall be repaid at the end of the agreed period.

*Ijarah receivable ("Ijarah")*

A Lease is classified as a finance lease, when the Bank transfers substantially all the risks and rewards incident to an ownership of the Ijarah receivable to the lessee. Ijarah receivable represent finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. The lease agreements provide that the lessor undertakes to transfer the leased property to the lessee upon receiving the final rental payment or the agreed price. Ijarah receivable are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

**4. Summary of significant accounting policies (continued)**

**b. Non-derivative financial instruments (continued)**

***Impairment***

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment for specific assets, or a group of similar assets. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of specific assets or a group of similar assets is calculated as the present value of the expected future cash flows.

Movement in provisions is recognised in the consolidated statement of income. Financial assets are written off only in circumstances where all reasonable restructuring and collecting activities have been exhausted.

**ii. Recognition of financial instruments**

Investment are recognised on the trade date which is the date on which the Group commits to purchase or sell the securities. Financing receivables and Ijarah receivable ("Ijarah") are recognised when cash is advanced to the borrowers.

Financial liabilities are recognised on the date when the Bank becomes a party to the contractual provisions of the instrument.

**iii. Derecognition of financial instruments**

The Group derecognises financial assets when the contractual right to the cash flows from the financial assets expire, or when it transfers the rights to receive the contractual cash flows on the financial assets in a transaction in which substantially all the risk and rewards of the ownership of the financial assets are transferred to other party.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

**iv. Fair value measurement principles**

Fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income is based on quoted market price at the reporting date without any deduction for transaction costs. If quoted market price is not available, the fair value of the instrument is estimated using pricing models or appropriate discounted cash flow techniques. Investments in other unlisted investment funds are recorded at the net asset value per share as reported by the managers of such fund.

**v. Measurement of financial instruments**

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Subsequent to the initial recognition, financial assets at fair value through profit or loss and fair value at other comprehensive income are stated at their fair value. All other financial instruments are measured at amortised cost less impairment loss, if any.

**c. Investment properties**

Investment properties are stated at fair value determined regularly by an independent valuer. Fair value is based on current prices in an active market for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the consolidated statement of income. Further the management assessed the fair values of investment properties internally to reflect the current market conditions.

Leases of assets under which the lessor effectively retains all risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in the consolidated statement of income on a straight-line basis over the term of the lease.

**d. Properties held-for-sale**

Properties held for sale are measured at a lower of cost and net realisable value (NRV) less impairment loss, if any.

NRV is the estimated selling price, less the estimated selling and other expenses necessary to complete the sale.

**e. Revenue recognition**

***Murabaha***

The profit on Murabaha is quantifiable and contractually determined at the commencement of the contract; profit is recognised as it accrues over the period of the contract on an effective yield method on the balance outstanding.

**4. Summary of significant accounting policies (continued)**

**e. Revenue recognition (continued)**

***Ijarah receivable ("Ijarah")***

Income from Ijarah receivable is recognised on an accrual basis on an effective yield method.

***Fees and commissions***

Fees and commissions income relating to underwriting and financing activities is recognised as the related service is performed.

***Rental income***

Rental income from investment properties are recognised in the consolidated statement of income on a straight-line basis over the term of the leases.

***Dividend income***

Dividend income is recognised in the consolidated statement of income when the Group's right to receive income is established. Usually this is the ex-dividend date for equity securities.

***Other income***

Other income includes revenue from provision of accommodation, food, beverages and brokerage commission relating to the services provided by the subsidiaries.

Revenue from provision of accommodation, food, beverages and other services is recognised on an accrual basis as the services are rendered.

Commissions are accounted for on the completion of the brokerage deal.

**f. Zakat**

Zakat is computed in accordance with the Bank's Articles of Association and is approved by the Bank's Fatwa and Shari'a Supervisory Board. Zakat is calculated at 2.577% (to account for the difference between the Gregorian and Lunar calendar) on the Bank's reserves, retained earnings and provision for staff end of service benefits at the year end and it is the Bank's shareholders responsibility to pay the Zakat on their respective share in the Bank's capital and the distributed cash dividends.

**g. Translation of foreign currencies**

The accounting records of the Group are maintained in UAE Dirhams. Transactions in foreign currencies are translated to UAE Dirhams at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to UAE Dirhams at the foreign exchange ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost, are translated to UAE Dirhams at the foreign exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

**h. Other assets**

Other assets include profit and other receivables which are stated at amortised cost net of provision for impairment, if any.

**i. Other liabilities**

These include financial liabilities and other payables. Financial liabilities are measured at fair value on initial recognition. Fair value is determined by discounting the present value of expected future payments at the discount rate that reflects current market assessment of the time value of money for a liability of equivalent average duration.

Subsequent to initial recognition these financial liabilities are stated at amortised cost using the effective yield method.

Other payables are stated at cost and are recognised for amounts to be paid in the future for goods or services received, whether or not billed.

**j. Provisions**

A provision is recognised if as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**4. Summary of significant accounting policies (continued):**

**k. Distribution of profit between holders of unrestricted investment deposit and the shareholders**

The Bank is complied with Shari'a rules as set out below:

Net gains on all items of income and expenses at the end of each month are the net profit distributable between the shareholders and the holders of unrestricted investment deposits.

- The share of the holders of unrestricted investment deposits is calculated from the net profit on a daily basis after deducting the Bank's agreed upon and declared Mudaraba percentage.
- Due to the amalgamation of unrestricted investment funds with the Bank's funds for the purpose of investment, no priority has been given to either party in the appropriation of profit.

**l. Provision for end-of-service benefits**

Provision is made for end-of-service benefits payable to expatriate employees in accordance with the U.A.E. labour laws, calculated on the basis of the individual's period of service at the reporting date and included under "Other liabilities".

With respect to its UAE national employees, the Bank makes contributions to the pension fund established by the General Pension and Social Security Authority as percentage of the employees' salaries. The Bank's obligation is limited to these contributions, which are recognised in the consolidated statement of income.

**m. Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any. Except for freehold land, property and equipment are depreciated on a straight-line basis over their estimated useful lives, using annual rates of 5% to 33% depending on the type of asset involved.

Property that is being constructed or developed for future use as investment property is classified as property and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

**n. Cash and cash equivalents**

Cash and cash equivalents consist of cash and balances with the CBUAE (excluding statutory reserves), current accounts with other banks and financial institutions, international murabaha and wakalah arrangements with residual maturity up to three months from the reporting date.

**o. Due to Banks**

Amounts due to banks are initially recognised at the fair value of the consideration received, and are subsequently measured at amortised cost using the effective yield method.

**p. Customers' deposits**

The Bank accepts customer savings and time deposit on a Mudaraba basis, where as current and other similar in nature deposits are accepted on a Qard Hassan (profit free loan) basis.

**q. Offsetting**

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net a basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by under IFRS.

**r. Fiduciary activities**

The Bank is involved in fiduciary activities in its capacity as a portfolio agent that results in the holding or placing of assets on behalf of customers in an equity portfolio. These assets and income arising thereon from the equity portfolio are excluded from these consolidated financial statements, as they are not assets of the Bank.

**s. Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary share. Basic EPS is calculated by dividing the profit or losses attributable to ordinary shareholders of the Bank by the weighted average number of ordinary share outstanding during the year. Diluted EPS is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

**t. Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is a person or group of persons that allocates resources and assesses the performance of the operating segments of an entity. The Bank has determined the Bank's management Committee as its chief operating decision maker. All transactions between business segments are conducted on an arm's length basis. Income and expenses directly associated with each segment are included in determining business segment performance.

**4. Summary of significant accounting policies (continued):****u. New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012 and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

Standards	Description	Effective
IAS 1 (Amendment)	Presentation of Financial Statements	(effective 1 July 2012)
IFRS 7 (Amendment)	Financial Instruments: Disclosures	(effective 1 January 2013)
IFRS 10	Consolidated Financial Statements	(effective 1 January 2013)
IFRS 11	Joint Arrangements	(effective 1 January 2013)
IFRS 12	Disclosure of Interest in other entities	(effective 1 January 2013)
IFRS 13	Fair Value Measurement	(effective 1 January 2013)
IAS 19 (Amendment)	Employee Benefits	(effective 1 January 2013)
IAS 27 (Amendment)	Separate Financial Statements	(effective 1 January 2013)
IAS 28 (Amendment)	Investments in Associates and joint ventures	(effective 1 January 2013)
IAS 32 (Amendment)	Financial Instruments : Presentation	(effective 1 January 2014)
IFRS 9	Financial Instruments	(effective 1 January 2015)

The standards which might have material impact on the Group financial statements in the period of initial application are as follows :

The Group is already following IFRS 9 (2009) which sets out guidelines for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39. IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Group has commenced the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Group's operations, this standard is expected to have a limited pervasive impact on the Group's consolidated financial statements

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. It is not expected to have a significant impact on the Group's accounting for investees.

IFRS 11 is not expected to have any impact on the Group because the Group does not have interests in joint ventures.

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. It is not expected to have a significant impact on the Group as the Group does not have any joint arrangements, associates or unconsolidated structured entities.

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The group is currently reviewing its methodologies for determining fair values. Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non - financial assets/ liabilities and disclosures on fair value measurements that are categorised in Level 3.

## 5. Risk management

### i. Risk management framework

The Board of Directors ("the Board") is responsible for the overall framework of the risk governance and management. The Board is responsible for determining risk strategy, setting the Group's risk limits and ensuring that risk exposure is monitored, controlled effectively and kept within set limits. It is also responsible for establishing a clearly defined risk management structure and for approval of the risk policies and procedures, infrastructure and management of all risks related to the Group.

In order to effectively discharge this responsibility the Board is assisted by three Board Committees and five Management Committees. The briefing about the role and function of each committee is as follows:

#### *Executive Committee (EC)*

EC acts as the Board's senior executive management assuring that the Board meets its strategic and operational objectives. EC consists of four members.

#### *Audit Committee (AC)*

The AC consists of Board members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the Group's financial reporting processes, maintaining accounting policies, reviewing and approving the financial information;
- Reviewing reports on the internal controls;
- Managing the relationship with the Group's external auditors; and
- Reviewing the internal audit reports and monitors control issues of major significance of the Group.

#### *Risk Management Committee (RMC)*

The RMC consists of Board Members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the risks inherent in the businesses of the Bank and the control processes with respect to such risks;
- Reviewing the risk profile of the Bank;
- Managing the Risk Management Compliance and control activities of the Bank;
- Providing a critical assessment of the organisation's business strategies and plans from an Enterprise risk perspective; and
- Ensuring that appropriate policies and procedures are in place for managing risks to which the bank is exposed.

#### *Management Committee (MC)*

The scope of management committee includes all cross functional issues that are not covered in the scope of other committees. Typically, MC covers the areas like strategic, policies, human resources, marketing and administrative processes. In addition, the MC is also responsible to liaise with all other units/divisions across the Group.

#### *Investment Committee (IC)*

The purpose of the Investments Committee, is to review the quality of the Bank's Investment portfolio on behalf of the Board of Directors, trends affecting the portfolio, the administration of investment related Polices, as well as the approval of Investment proposals, including Sukuks and Syndicate Finance within the approval limit set by the BOD.

#### *IT Steering Committee (ITSC)*

The ITSC provides strategic and tactical guidance for managing the Group's overall technology systems in the long and short term, to ensure that Information Technology (IT) initiatives are consistent with the strategic business goals of the Group. The ITSC is charged with assisting the Board in:

- Providing guidance in the prioritisation and implementation of technology initiatives and projects (including those related to infrastructure);
- Reviewing IT operations;
- Reviewing IT Security plans, policies and reports relating to the effectiveness of information security, their implementation and measures taken to address any residual risks;
- Reviewing Business Continuity plans, policies and reports relating to the effectiveness of business continuity, their implementation and measures taken to address any residual risks; and
- Reviewing the Group's IT development, strategic opportunities and plans.

## 5. Risk management (continued):

### i. Risk management framework (continued)

#### *Asset and Liability Committee (ALCO)*

The objective of ALCO is to derive the most appropriate strategy for the Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of profit rate movements, liquidity constraints, and foreign exchange exposure and capital adequacy. The ALCO is also responsible to ensure that all strategies conform to the Group's risk appetite and levels of exposure as determined by the Board of Directors. The roles of ALCO include the following:

- Develop an effective asset and liability management process and related procedures to oversee and monitor the Group's approved policies and procedures in relation to the management and control of the following risks:
  - Liquidity risk - being the risk from the Group's inability to meet obligations when they become due without incurring unacceptable losses because of an inability to liquidate assets or to obtain adequate funding;
  - Market risk - being the following risks;
    - The risk to earnings from adverse movements in profit rates, exchange rates and market volatility and;
    - The risk from changes in the value of portfolio of financial instruments;
  - Statement of financial position risk - being the following risks;
    - The risk to earnings from changes in profit rates and market volatility in retail and wholesale rates;
    - The risk to value and capital from changes in the value of assets and liabilities as a result of changes in profit rates and market volatility; and
    - The risk from material changes in global and domestic economic conditions generally.

#### *Credit Committee (CC)*

CC manages the credit risk of the Group by continuous review of credit limits, policies and procedures, the approval of specific exposures and work out situation, constant revaluation of the loans portfolio and the sufficiency of provisions thereof.

#### *Human Resource Committee (HRC)*

HRC manages the resources, performance and requirement of individuals required by Group on time to time basis.

#### *- Enterprise risk management group (ERMG)*

In order to manage the credit, market, operational and IT risks an ERMD is in place. Its role includes the following:

- develop a strategy, policy and framework for risk management such that these are aligned with business requirements;
- provide support to the Group in implementation of the framework;
- bring together analysis of risk concentrations and sensitivities across the Group;
- act as a point of reference for risk and control matters, providing advice to management, sharing best practices and carrying out special reviews as directed by ALCO; and
- provide independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner.

#### *- Internal audit*

The role of the internal audit department within the Group is to provide independent and objective assurance that the process for indentifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides a independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures. It also provides consulting services which are advisory in nature, and are generally performed at the specific request of the AC.

It is led by the head of internal audit who reports to the AC of the Board of Directors, with administrative reporting to the Chief Executive Officer (CEO).

To perform its role effectively, internal audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel.

## 5. Risk management (continued):

### i. Risk management framework (continued)

#### - Internal control

The role of the internal control department is to ensure that the Group has a sound internal control system in place, meeting international standards and fulfilling the requirements of the Group's management and external regulatory bodies. The functions and responsibilities of the Internal control department include:

- Ensuring that the Group's operational policies, processes and controls are adhered to;
- Ensuring that proper internal controls are in place and that they are functioning as designed in a timely and effective manner;
- Periodic review of the Group's internal control system in order to identify areas where internal controls may be weak, not present and areas where there appear to be excessive controls resulting in operational inefficiency so as to suggest ways to rectify the same;
- Enable the management to conduct an annual review of the efficiency of the internal control system and report its findings; and
- Follow up of the operational activities from a preventive and detective angle and oversee operational controls being exercised to ensure that these are timely and effective.

#### - Compliance

The overall mission and role of compliance is to:

- ensure compliance risks are adequately identified, assessed, monitored and controlled in conjunction with Business and other control functions;
- ensure senior management is fully informed of significant compliance issues including "KYC" and "AML", and plans for their resolution;
- contribute to a "no surprise" compliance culture by educating and communicating compliance awareness throughout the Group;
- align annual compliance plans with business strategies and goals; and
- meet regulatory expectations.

### ii. Financial risk management

The Group has exposure to the following primary risks from its use of financial instruments:

Credit risk;

Liquidity risk;

Market risk; and

Operational risk.

Risk is inherent to the Group's business and activities. The Group's ability to identify, assess, monitor and manage each type of risk to which the Group is exposed is an important factor in its financial stability, performance and reputation.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

This note presents information relating to the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

#### a. Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's financing receivables, Ijarah receivable, Wakalah arrangements with financial institutions and in debt securities.

The Group manages its credit risk exposure through diversification of its financing activities and investments to avoid concentration of risk with individuals or group of customers in specific location or business.

In addition, the Group manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

Regular audits of business units and Group credit processes are undertaken by internal audit division.

**5. Risk management (continued):****ii. Financial risk management (continued):****a. Credit risk (continued):****Concentration**

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentration of credit risk by industrial sector for financing receivables and Ijarah receivable are presented in notes 8b and 9b.

Concentration of credit risk by geographical distribution of due from banks and wakalah arrangements with financial institutions is set out in note 6 and 7.

The Group measure its exposure to credit risk by reference to gross carrying amount of financial assets less amounts offset, profit suspended and impairment losses, if any.

**Collaterals**

The Group holds collateral against financing receivable and Ijarah receivable (*Ijarah*) in the form of cash margins, personal guarantees, and mortgages over properties or other securities over assets. Estimates of credit risk mitigation relating to financing receivables and Ijarah receivable are based on the value of collateral assessed at the time of financing, and are subsequently monitored on a periodic basis. A quantification of the extent to which collateral and other credit enhancements mitigate credit risk is shown below:

	Against neither past due nor impaired		Against past due but not impaired		Against individually impaired	
	2012	2011	2012	2011	2012	2011
Mortgage of property	5,156,382	5,041,243	2,359,709	1,919,762	487,157	253,230
Listed shares	63,764	140,216	128,765	72,379	-	-
Cash lien and others	96,069	74,769	-	-	-	-
<b>Carrying amount</b>	<b>5,316,215</b>	<b>5,256,228</b>	<b>2,488,474</b>	<b>1,992,141</b>	<b>487,157</b>	<b>253,230</b>

**Impairment of financial Assets**

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment for specific assets, or a group of similar assets. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of specific assets or a group of similar assets is calculated as the present value of the expected future cash flows.

Financial assets are written off only in circumstances where all reasonable restructuring and collecting activities have been exhausted. The Bank establishes an allowance for impairment losses that represents its estimate for incurring losses in its financing portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures after considering guidance provided by Central Bank, and a collective financing receivable and ijarah loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

## 5. Risk management (continued):

## ii. Financial risk management (continued):

## a. Credit risk (continued):

*Financial assets with renegotiated terms*

Financial assets with renegotiated terms are those that have been restructured due to deterioration in the borrower's financial position and where the Group has made concession that it would not otherwise consider.

	Bank and financial institutions		Investment securities		Financing receivable and Ijarah receivable		Loans and advances	
	2012	2011	2012	2011	2012	2011	2012	2011
Carrying amount	2,378,806	2,362,688	615,486	456,920	10,749,371	10,427,434	-	-
<b>Individually impaired</b>								
Substandard	-	-	-	-	550,470	276,745	-	26
Doubtful	-	-	-	-	110,780	118,930	9,890	9,414
Loss	-	-	-	-	6,262	5,824	223,106	222,288
Gross amount	-	-	-	-	667,512	401,499	232,996	231,728
Profit in suspense	-	-	-	-	(7,094)	(7,907)	(75,843)	(74,380)
Specific allowance for impairment	-	-	-	-	(176,828)	(132,709)	(157,147)	(157,342)
Total	-	-	-	-	483,590	260,883	6	6
<b>Neither past due nor impaired</b>								
Collective allowance for impairment	-	-	-	-	(71,453)	(69,253)	(6)	(6)
Carrying amount	2,378,806	2,362,688	615,486	456,920	10,337,234	10,235,804	-	-
Includes accounts with renegotiated terms	-	-	27,811	64,123	365,312	527,916	-	-
Past due but not impaired more than 90 days:	-	-	-	-	495,491	523,141	-	-

Bank and financial institutions exclude cash in hand and cash reserve deposits with the CBUAE.

The Group's exposure to credit risk relating to off balances sheet commitments are disclosed in note 32. These are neither past due nor impaired

*Settlement risk*

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by ensuring that a trade date is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit limits monitoring process. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group risk.

## b. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. It includes the risk of the inability to fund assets at appropriate maturities and rates and the inability to liquidate assets at reasonable prices and in an appropriate timeframe and inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

The Group's approach to managing liquidity risk is to ensure that, management has diversified funding sources and closely monitors liquidity to ensure adequate funding.

All liquidity policies and procedures are subject to review and approval by ALCO.

## 5. Risk management (continued):

## ii. Financial risk management (continued):

## b. Liquidity risk (continued):

*Exposure to liquidity risk*

The Group's contractual maturities of financial instruments are summarised in the table below based on the contractual repayment arrangements and does not take account of the effective maturities as indicated by the Group's deposit retention history. The contractual maturities of financial instruments have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is to be maintained.

31 December 2012	Less than 3 months	3 months to 1 year	1-5 Year	Over 5 Year	Total
<b>Assets</b>					
Cash and balances with banks and financial institutions	953,737	829,500	-	-	1,783,237
International murabaha and wakalah with financial institutions	1,880,213	492,197	-	-	2,372,410
Financing receivables	684,710	283,885	1,770,123	40,164	2,778,882
Ijarah receivable	536,249	259,090	2,292,268	4,882,882	7,970,489
Investments securities	474,636	35,613	298,683	47,749	856,681
	<b>4,529,545</b>	<b>1,900,285</b>	<b>4,361,074</b>	<b>4,970,795</b>	<b>15,761,699</b>
<b>Liabilities and equity</b>					
Customers' deposits	8,384,525	2,950,016	-	-	11,334,541
Due to banks	470,190	-	-	-	470,190
Sukuk payable	-	-	1,464,457	-	1,464,457
Other liabilities and zakat	445,418	28,624	129,101	-	603,143
	<b>9,300,133</b>	<b>2,978,640</b>	<b>1,593,558</b>	<b>-</b>	<b>13,872,331</b>
<b>31 December 2011</b>					
<b>Assets</b>					
Cash and balances with banks and financial institutions	1,153,556	616,867	9	-	1,770,432
International murabaha and wakalah with financial institutions	1,988,586	352,948	-	-	2,341,534
Financing receivables	651,251	131,992	1,572,141	15,304	2,370,688
Ijarah receivable	376,846	164,771	2,924,280	4,590,849	8,056,746
Investments securities	410,058	91,566	232,912	-	734,536
	<b>4,580,297</b>	<b>1,358,144</b>	<b>4,729,342</b>	<b>4,606,153</b>	<b>15,273,936</b>
<b>Liabilities and equity</b>					
Customers' deposits	8,711,235	1,686,695	923	-	10,398,853
Due to banks	900,972	-	-	-	900,972
Sukuk payable	-	-	1,463,062	-	1,463,062
Other liabilities and zakat	366,354	-	197,743	-	564,097
	<b>9,978,561</b>	<b>1,686,695</b>	<b>1,661,728</b>	<b>-</b>	<b>13,326,984</b>

Cash and balances with banks and financial institutions include mandatory deposits with the CBUAE (refer note 29). The Group's expected cash flows may vary from this analysis, for example, demand deposits from customers are expected to maintain a stable or increasing balance.

## 5. Risk management (continued)

## ii. Financial risk management (continued)

## c. Market risks

Market risk is the risk that the Group's income and / or value of a financial instrument will fluctuate because of changes in market prices such as profit rates, foreign exchange rates and market prices of equity.

**Profit rate risk**

Profit rate or pricing risk, comprising market and valuation risks, are managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value. Overall pricing or profit rate risk positions are managed by the ALCO.

The Bank is not significantly exposed to risk in terms of the re-pricing of its liabilities since primarily in accordance with Islamic Shari'a, the Bank does not provide a contractual rate of return to its depositors.

**Currency risk**

Currency risk is managed on the basis of limits determined by the Board of Directors and a continuous assessment of the Bank's open position and current and expected exchange rate movements. The Bank does not engage in foreign exchange trading and where necessary matches currency exposures inherent in certain assets with liabilities in the same or correlated currency.

The Board of Directors has set limits on positions by currency. Positions are closely monitored by ALCO to ensure positions are maintained within established limits.

At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

Currency	Net position	
	2012	2011
US dollar	(243,930)	(432,935)
Sterling pound	75	165
Euro	38	1,837
Bahrani Dinar	7,371	7,418
Qatari Riyal	(11)	349
Saudi Riyals	755	151
Kuwaiti Dinar	37,355	32,558
Omani Riyal	15,944	26,540

The exchange rate of AED against US Dollar is pegged since November 1980 and the Group's exposure to currency risk is limited to that extent.

**Equity price risk**

Equity price risk arises from the change in fair value of equity instruments. The Group manages this risk through diversification of investment in terms of geographical distribution and industry concentration.

The table summarises the impact of change in equity prices by  $\pm 10\%$  on net profit and other comprehensive income of the Group.

	2012		2011	
	Effect on net profit	Effect on other comprehensive income	Effect on net profit	Effect on other comprehensive income
Financial assets at fair value through profit or loss	9,766		7,438	-
Financial assets at fair value through other comprehensive income		14,323	-	20,249

**5. Risk management (continued):**

**ii. Financial risk management (continued)**

**d. Operational risks**

Operational risk is the risk of a direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage, to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity

The Group has established a framework of policies and procedures to identify, assess, control, manage and report risks. The Risk Management Committee identify and manage operational risk to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Internal Audit Division. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

**iii. Capital management**

**Regulatory capital**

The Group's lead regulator, the CBUAE, sets and monitors regulatory capital requirements.

The Group's objectives when managing capital are as follows:

- Safeguard the Group's ability to continue as a going concern and increase returns for shareholders; and
- Comply with regulatory capital requirements set by the CBUAE.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group's regulatory capital adequacy ratio is set by the CBUAE. The Group has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the year. The Group has adopted a standardized approach for Credit risk and Market risk and a Basic Indicator approach for Operational Risk as a starting point and is working towards migrating to foundation internal rating based (IRB) and advanced IRB as per time line set by CBUAE.

- Tier 1 capital, which includes ordinary share capital, translation reserve and retained earnings
- Tier 2 capital, which includes fair value reserves relating to unrealised gains / losses on financial assets classified as FVTPL, FVTOCI and collective impairment provision.

The following limits have been applied for Tier 2 capital:

Total tier 2 capital shall not exceed 67% of tier 1 capital

Subordinated liabilities shall not exceed 50% of total tier 1 capital

Collective impairment provision shall not exceed 1.25% of total risk weighted assets.

## 5. Risk management (continued)

## iii. Capital management (continued)

The table below summarises the composition of regulatory capital of the Group:

	Basel II	
	2012	2011
<b>Tier 1 capital</b>		
Ordinary share capital	2,425,500	2,425,500
Retained earnings	662,093	616,925
Statutory and special reserve	89,008	89,008
Legal Reserve	1,293,755	1,307,136
<b>Total tier 1 capital base</b>	<b>4,470,356</b>	<b>4,438,569</b>
<b>Tier 2 capital</b>		
Fair value reserve	-	-
Collective impairment provisions	71,459	69,259
<b>Total tier 2 capital base</b>	<b>71,459</b>	<b>69,259</b>
<b>Total capital base (a)</b>	<b>4,541,815</b>	<b>4,507,828</b>
<b>Risk weighted assets:</b>		
On balance sheet	18,338,865	17,798,726
Off balance sheet	979,667	801,159
Credit risk	11,758,565	11,082,940
Market risk	552,277	359,367
Operational risk	772,697	745,692
<b>Risk weighted assets</b>	<b>13,083,539</b>	<b>12,187,999</b>
<b>Tier 1 ratio</b>	<b>34.17%</b>	<b>36.42%</b>
<b>Capital adequacy ratio</b>	<b>34.71%</b>	<b>36.99%</b>

**Risk weighted capital requirement**

The Group has adopted the standardized approach for credit risk, market risk and basic indicator approach for operational risk for regulatory reporting purposes. The Group's risk weighted capital requirement for credit, market and operation risk are given below:

**Risk weights for credit risk**

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the Standard Portfolio approach mentioned under the CBUAE Basel II Capital Adequacy Framework. The descriptions of the counterparty classes along with the risk weights used to derive the risk weighted assets are as follows:

**Claims on sovereigns**

These pertain to exposures to governments and their central banks. Claims on central banks and sovereigns are risk weighted in accordance with their ratings from acceptable ECAIs, except that, for all GCC sovereigns a 0% weight has been applied.

**Claims on public sector entities (PSEs)**

Domestic currency claims on GCC non commercial PSE were treated as claims on GCC sovereign if their central bank or monetary authority treats them as such. Foreign currency claims on GCC PSE were treated one grade less favorable than its sovereign i.e. 20% risk weight were applied. Claims on other foreign non commercial PSE were treated one grade less favorable than its sovereign. Claims on commercial PSE were treated as claims on corporate.

**Claims on multilateral development banks (MDBs)**

All MDBs are risk weighted in accordance with the banks credit rating except for those members listed in the World Bank Group which are risk weighted at 0%.

**5. Risk management (continued):**

**iii. Capital management (continued)**

**Claims on banks**

Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims denominated in local currency were assigned more favorable risk weighting. No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

**Claims on corporate portfolio**

Claims on corporate are risk weighted in accordance with ratings from acceptable ECAs. Risk weightings for unrated corporate claims are assigned at 100%.

**Claims on regulatory retail exposures**

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except for past due loans), if it meets the criteria mentioned in the CBUAE BASEL-II guidelines.

**Claims secured by residential property**

A preferential risk weight of 35% was applied on claims that did not exceed AED 10 million and the claim was secured by residential property with LTV of up to 85%. Other claims secured on residential property were risk weighted 100%.

**Claims secured by commercial property**

100% risk weight was applied on claims secured by commercial property.

**Past due exposures**

The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk weighted as follows :

150% risk weight when specific provisions are less than 20% of the outstanding amount of the financing; and

100% risk weight when specific provisions are greater than 20% of the outstanding amount of the financing.

**Equity portfolios**

0% risk weight was applied on equity in trading book. Equity in banking book was risk weighted at 100%.

The risk weighted at 100% for other exposures.

## 5. Risk management (continued):

## iii. Capital management (continued)

Risk weighted assets as per standardized approach is set out below:

2012

Assets classes (on net basis)	On balance sheet - net	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assets
			Exposure before CRM	CRM	After CRM	
Claims on sovereigns	3,633,861	87,565	3,721,426	(25)	3,721,401	-
Claims on non-central government public sector entities (PSES)	2,056,203	75	2,056,278	-	2,056,278	38,720
Claims on banks	2,426,693	11,447	2,438,140	-	2,438,140	1,079,977
Claims on corporate	2,446,946	830,527	3,277,473	(13,599)	3,263,874	3,263,874
Claims included in the regulatory retail portfolio	3,364,288	50,002	3,414,290	(17,150)	3,397,140	3,251,002
Claims secured by residential property	34,189	-	34,189	-	34,189	29,216
Claims secured by commercial real estate	101,737	-	101,737	-	101,737	101,737
High risk categories	18,825	-	18,825	-	18,825	28,237
Past due financing receivables	974,814	51	974,865	(35,298)	939,567	1,329,400
Other assets	3,281,309	-	3,281,309	-	3,281,309	2,636,402
<b>Total claims</b>	<b>18,338,865</b>	<b>979,667</b>	<b>19,318,532</b>	<b>(66,072)</b>	<b>19,252,460</b>	<b>11,758,565</b>
<b>Total credit risk</b>						<b>11,758,565</b>

2011

Assets classes (on net basis)	On balance sheet - net	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assets
			Exposure before CRM	CRM	After CRM	
Claims on sovereigns	3,452,923	99,968	3,552,891	(25)	3,552,866	-
Claims on non-central government public sector entities (PSES)	1,969,742	1,014	1,970,756	-	1,970,756	19,100
Claims on banks	2,462,659	9,794	2,472,453	-	2,472,453	879,117
Claims on corporate	1,911,297	641,674	2,552,971	(72,388)	2,480,583	2,480,583
Claims included in the regulatory retail portfolio	2,700,648	48,449	2,749,097	(150,653)	2,598,444	2,523,636
Claims secured by residential property	47,885	-	47,885	-	47,885	42,567
Claims secured by commercial real estate	1,346,391	-	1,346,391	-	1,346,391	1,346,391
High risk categories	18,825	-	18,825	-	18,825	28,238
Past due financing receivables	783,994	260	784,254	-	784,254	1,161,587
Other assets	3,104,362	-	3,104,362	-	3,104,362	2,601,721
<b>Total claims</b>	<b>17,798,726</b>	<b>801,159</b>	<b>18,599,885</b>	<b>(223,066)</b>	<b>18,376,819</b>	<b>11,082,940</b>
<b>Total credit risk</b>						<b>11,082,940</b>

**5. Risk management (continued):****iii. Capital management (continued)****Risk weights for market risk**

Capital requirement for market risk is calculated using the standardized approach. The capital requirement for market risk is analysed into capital requirement for profit rate risk, equity risk, foreign exchange risk.

A summary of the capital requirement for market risk under standardized approach under Basel II is set out below

	<u>2012</u>	<u>2011</u>
Equity position risk	525,156	357,568
Foreign currency risk	27,121	1,799
	<u>552,277</u>	<u>359,367</u>

**Risk weight for operational risk**

The capital requirement for operation risk is calculated using the basic indicator approach. The total capital requirement is calculated as 15% of last three years average income which amounts to AED 772.7 thousand (2011: AED 745.7 thousand)

**6. Cash and balances with banks and financial institutions:**

Cash	251,026	234,514
Deposits with CBUAE	1,525,815	1,514,764
Due from banks	6,396	21,154
	<u>1,783,237</u>	<u>1,770,432</u>

**Due from banks - by geographical distribution**

GCC Countries	1,831	1,075
Europe	3,530	6,186
North America	-	1,721
Others	1,035	12,172
	<u>6,396</u>	<u>21,154</u>

**7. International murabaha and wakalah with financial institutions:**

International murabaha and wakalah represent transactions with local and international banks with residual maturity less than one year from the reporting date.

Wakala arrangements	2,297,194	2,341,534
International Murabaha	75,216	-
	<u>2,372,410</u>	<u>2,341,534</u>

**International murabaha and wakalah with financial institutions by geographical distribution:**

Within UAE	1,826,969	1,335,072
GCC Countries	471,981	951,050
Others	73,460	55,412
	<u>2,372,410</u>	<u>2,341,534</u>

**8. Financing receivables :**

Financing receivables are secured by acceptable forms of collateral to mitigate the related credit risk. Financing receivables comprise the following:

**a) By type**

Vehicle murabaha	371,414	358,750
Goods murabaha	1,439,866	1,195,225
Real estate murabaha	215,293	227,213
Other murabaha	609,947	450,065
Qard Hasan	282,729	250,133
Visa receivables	35,733	36,017
Istisna	3,593	7,039
Provision for impaired financing receivables	(179,693)	(153,754)
	<u>2,778,882</u>	<u>2,370,688</u>

**8. Financing receivables (continued):**

b) By sector	2012	2011
Government departments and authorities	117,295	99,992
Construction	59,095	111,016
Manufacturing	251,180	120,120
Transportation	58,748	66,333
Real Estate	353	27,128
Trading	465,055	342,758
Other Services	181,188	162,800
Personal	1,723,791	1,482,759
Others	101,870	111,536
Provision for impaired financing receivables	<u>(179,693)</u>	<u>(153,754)</u>
	<u>2,778,882</u>	<u>2,370,688</u>
<b>c) Impairment provision for financing receivables</b>		
Balance, beginning of the year	153,754	135,539
Written off during the year	(656)	(761)
Additional provision for the year	36,094	36,400
Recoveries and write-backs during the year	<u>(9,499)</u>	<u>(17,424)</u>
	<u>179,693</u>	<u>153,754</u>

**9. Ijarah receivable:**

Ijarah receivable are finance leases, which comprise the following:

**a) Net investment**

Gross investment	8,039,077	8,104,954
Provision for impaired ijarah receivable	<u>(68,588)</u>	<u>(48,208)</u>
	<u>7,970,489</u>	<u>8,056,746</u>

**b) By sector**

Government departments and authorities	3,944,431	3,759,378
Construction	1,513,776	1,533,797
Manufacturing	124,007	142,842
Transportation	154,327	115,301
Real Estate	255,591	288,038
Trading	164,126	220,154
Other Services	384,146	537,347
Personal	1,498,673	1,508,097
Provision for impaired ijarah receivable	<u>(68,588)</u>	<u>(48,208)</u>
	<u>7,970,489</u>	<u>8,056,746</u>

**c) Impairment provision for ijarah receivable**

Balance, beginning of the year	48,208	25,860
Additional provision for the year	25,380	23,559
Recoveries and write-backs during the year	<u>(5,000)</u>	<u>(1,211)</u>
	<u>68,588</u>	<u>48,208</u>

**d) The net investment in finance leases comprises:**

Less than one year	795,339	541,617
Between one and five years	2,292,268	2,924,280
More than five years	<u>4,882,882</u>	<u>4,590,849</u>
	<u>7,970,489</u>	<u>8,056,746</u>

**10. Loans and advances:****a) Loans and advances, net**

Loans and advances	157,152	157,348
Less: Provisions for impaired loans and advances	<u>(157,152)</u>	<u>(157,348)</u>
	<u>-</u>	<u>-</u>

**10. Loans and advances (continued)**

Loans and advances are all domestic:

**b) Impairment provision for loans and advances**

	<b>2012</b>	<b>2011</b>
Balance at the beginning of the year	<u>157,348</u>	<u>161,259</u>
Recoveries and write-backs during the year	<u>(196)</u>	<u>(3,911)</u>
	<u>157,152</u>	<u>157,348</u>

**11. Investments securities:**

Investments comprise the following:

- Financial assets at fair value through profit or loss	<b>491,689</b>	<b>334,862</b>
- Financial assets at fair value through other comprehensive income	<b>143,227</b>	<b>210,515</b>
- Financial assets measured at amortised cost	<b>221,765</b>	<b>189,159</b>
	<u>856,681</u>	<u>734,536</u>

During the year, the Group provided AED 0.4 million (2011: AED 1.8 million) as a specific impairment provisions relating to financial assets at amortised cost.

**Investments securities – by geographical distribution**

- Financial assets at fair value through profit or loss:

Domestic	<b>73,460</b>	<b>249,986</b>
International	<b>418,229</b>	<b>84,876</b>
	<u>491,689</u>	<u>334,862</u>

- Financial assets at fair value through other comprehensive income

Domestic	<b>4,408</b>	<b>3,198</b>
International	<b>138,819</b>	<b>207,317</b>
	<u>143,227</u>	<u>210,515</u>

- Financial assets measured at amortised cost

Domestic	<b>174,121</b>	<b>88,080</b>
International	<b>47,644</b>	<b>101,079</b>
	<u>221,765</u>	<u>189,159</u>

**Investments securities – by quoted / unquoted**

- Financial assets at fair value through profit or loss:

Quoted	<b>405,515</b>	<b>279,279</b>
Unquoted	<b>86,174</b>	<b>55,583</b>
	<u>491,689</u>	<u>334,862</u>

- Financial assets at fair value through other comprehensive income

Quoted	<b>4,408</b>	<b>3,198</b>
Unquoted	<b>138,819</b>	<b>207,317</b>
	<u>143,227</u>	<u>210,515</u>

- Financial assets measured at amortised cost

Quoted	<b>185,140</b>	<b>88,080</b>
Unquoted	<b>36,625</b>	<b>101,079</b>
	<u>221,765</u>	<u>189,159</u>

**12. Investment properties**

	Properties	Properties - work in progress	Total
Balance as at 1 <sup>st</sup> January 2012	177,207	13,837	191,044
Addition	16,508	13,536	30,044
Revaluation gain	2,200	-	2,200
Capitalized	24,635	(24,635)	-
As at 31 December 2012	<u>220,550</u>	<u>2,738</u>	<u>223,288</u>
Balance as at 1 <sup>st</sup> January 2011	179,076	2,255	181,331
Addition	-	11,582	11,582
Revaluation loss	(1,869)	-	(1,869)
As at 31 December 2011	<u>177,207</u>	<u>13,837</u>	<u>191,044</u>

## 12. Investment properties (continued)

	2012	2011
- Investment properties by geographical distribution:		
Domestic	217,086	183,337
International	6,202	7,707
	<u>223,288</u>	<u>191,044</u>

The carrying amount of investment property is the fair value of the property as determined by an independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued and is reviewed by the Board of Directors on a yearly/annual basis. Fair values were determined having regard to recent market transactions for similar properties in the same location as the Group's investment property.

## 13. Properties held for sale (Domestic):

	Properties	Properties held for sale - work in progress	Total
Balance as at 1 <sup>st</sup> January 2012	1,020,803	24,186	1,044,989
Addition	6,120	38,385	44,505
Disposal during the year	(6,460)	-	(6,460)
As at 31 December 2012	<u>1,020,463</u>	<u>62,571</u>	<u>1,083,034</u>
Balance as at 1 <sup>st</sup> January 2011	1,016,675	23,085	1,039,760
Addition	21,357	1,101	22,458
Disposal during the year	(17,229)	-	(17,229)
As at 31 December 2011	<u>1,020,803</u>	<u>24,186</u>	<u>1,044,989</u>

## 14. Other assets:

Prepaid expenses	35,971	36,123
Profit receivable	208,848	221,934
Sundry debtors	35,930	22,808
Assets available for sale-murabaha	14,522	7,615
Other Receivable subsidiaries	51,817	57,445
Reimbursements under acceptances	47,293	62,273
	<u>394,381</u>	<u>408,198</u>

## 15. Property and equipment:

	Freehold land & buildings	Equipment, furniture & fittings	Computer equipment	Motor vehicles	Capital work in progress	Total
<b>Cost - 2012</b>						
As at 1 January 2012	832,197	90,808	60,964	3,358	36,571	1,023,898
Additions	345	2,120	1,359	395	59,049	63,268
Disposals	(2,621)	(4,749)	(5,504)	(391)	-	(13,265)
Capitalised	3,819	1,128	3,254	-	(8,201)	-
As at 31 December 2012	<u>833,740</u>	<u>89,307</u>	<u>60,073</u>	<u>3,362</u>	<u>87,419</u>	<u>1,073,901</u>
<b>Accumulated depreciation - 2012</b>						
As at 1 January 2012	97,615	78,587	30,295	2,426	-	208,923
Additions	8,870	5,536	9,697	313	-	24,416
Disposals	(2,602)	(4,906)	(5,444)	(313)	-	(13,265)
As at 31 December 2012	<u>103,883</u>	<u>79,217</u>	<u>34,548</u>	<u>2,426</u>	<u>-</u>	<u>220,074</u>
<b>Net book value</b>						
As at 31 December 2012	<u>729,857</u>	<u>10,090</u>	<u>25,525</u>	<u>936</u>	<u>87,419</u>	<u>853,827</u>
As at 31 December 2011	<u>734,582</u>	<u>12,221</u>	<u>30,669</u>	<u>932</u>	<u>36,571</u>	<u>814,975</u>

(Currency: Thousands of U.A.E. Dirhams)

<b>16. Customers' deposits:</b>	<b>2012</b>	<b>2011</b>
Current accounts	3,505,599	3,013,048
Saving accounts	1,222,990	914,149
Watany/call accounts	265,558	221,555
Time deposits	6,210,989	6,096,644
Margins	129,405	153,457
	<b>11,334,541</b>	<b>10,398,853</b>

**17. Due to banks:**

On demand	16,246	6,006
Term deposit	453,944	894,966
	<b>470,190</b>	<b>900,972</b>

**18. Sukuk payable :**

Name of issuer	Maturity date	Profit rate		
SIB Sukuk Company II Limited	25 May 2016	4.715%	<b>1,464,457</b>	<b>1,463,062</b>

On 26 May 2011, the Bank through a shari'a compliant Sukuk Financing arrangement raised medium term finance amounting to AED 1.47 billion (US\$ 400 million). The Sukuk is listed on the London Stock Exchange PLC.

The terms of the arrangement includes the transfer of certain Ijarah receivable of the Bank on a co-ownership basis to the issuer. The assets are under control of the Bank and shall be continued to be serviced by the Bank.

The Issuer will pay the quarterly distribution amount from the returns received in respect of the Ijarah receivable. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to Sukuk holders on each quarterly distribution date. Upon expiry of this Sukuk the Bank has undertaken to repurchase the assets at the exercise price of US\$ 400 million.

**19. Other liabilities:**

Depositors' profit payable	59,142	30,257
Payables subsidiaries	61,932	55,073
Accrual and provision	7,635	6,910
Accounts payable	58,812	51,457
Provision for staff benefits	29,364	26,055
Profit Reserve	18,133	14,422
Managers' cheques	93,889	39,378
Obligations under acceptances	47,293	62,273
Sundry creditors	146,258	120,886
Others	919	7,031
	<b>523,377</b>	<b>413,742</b>

**20. Share capital:**

The Bank's issued and fully paid share capital comprises 2,425,500,000 shares of AED 1.0 each.

	2012		2011	
	No. of shares	Value	No. of shares	Value
Share capital	2,425,500,000	2,425,500	2,425,500,000	2,425,500
	<b>2,425,500,000</b>	<b>2,425,500</b>	<b>2,425,500,000</b>	<b>2,425,500</b>

**21. Proposed cash dividend and Bonus Share :**

The Directors propose to the Shareholders a cash dividend of 6% of the par value of share (AED 0.06 per share) amounting to AED 145.5 million (compared to cash dividend of AED 145.5 million (AED 0.06 per share) for 2011).

**22. Proposed directors' remuneration:**

In accordance with the Ministry of Economy & Planning interpretation of Article 118 of Commercial Companies Law No. 8 of 1984, the proposed directors' remuneration of AED 2.4 million (2011: AED 2.4 million) has been treated as a as an appropriation from equity and is included in retained earnings.

**23. Reserves :**

In accordance with the Bank's Articles of Association and Article (82) of Union Law No. 10 of 1980, the Bank transfers 10% of annual net profits, if any, to the legal reserve until it equals 50% of the share capital. Also, in accordance with its Articles of Association, 10% of annual net profits, if any, maybe transferred to a statutory reserve until it is suspended by an ordinary general meeting upon a proposal by the Board of directors. The Statutory reserve can be utilized for the purposes determined by the ordinary general meeting upon recommendations of the Board of Director. The movements in reserves are as follows:

	Legal reserve	Statutory reserve	Fair value reserve
Balance at 1 January 2012	1,327,617	89,008	(20,481)
Transfer to reserve	609	-	-
Fair value adjustment - IFRS - 9	-	-	21,202
Change in fair-value of financial assets	-	-	(35,191)
Balance at 31 December 2012	1,328,226	89,008	(34,470)

The fair value reserve comprises the cumulative net change in fair values of financial assets through other comprehensive income.

	2012	2011
<b>24. Fees, commission and other income:</b>		
Fees and commissions	76,352	78,147
Net gains from dealing in foreign currencies	18,336	20,999
Income from investments securities	58,940	16,125
Income from properties held for sale	-	1,705
Rent income	8,913	7,301
Income from subsidiary companies	22,135	21,511
Other operating income	2,936	2,070
	<u>187,612</u>	<u>147,858</u>
<b>25. General and administrative expenses:</b>		
Staff costs	231,607	216,345
Depreciation	24,416	25,226
Other general and administrative expenses	80,555	74,237
	<u>336,578</u>	<u>315,808</u>
<b>26. Provision - net of recoveries :</b>		
a) provision for customer receivables - net of recoveries		
Provision made during the year	(61,462)	(59,960)
Recoveries during the year	15,654	23,615
	<u>(45,808)</u>	<u>(36,345)</u>
b) Other provision - net of recoveries		
Impairment provision - investment securities	(441)	(1,763)
Revaluation loss on investment properties	-	(1,869)
Impairment Provision - customer receivables - SIFS - net	8,447	(6,735)
	<u>8,006</u>	<u>(10,367)</u>
c) Other recoveries		
Other recoveries during the year	411	839
	<u>411</u>	<u>839</u>
<b>Total provision - net of recoveries</b>	<u>(37,391)</u>	<u>(45,873)</u>
<b>27. Distribution to depositors:</b>		
The distribution of profit between depositor and shareholders is made in accordance with the methods approved by the Bank's Fatwa and Shari'a Supervisory Board effective from 1 July 2002. The Bank has adopted the "Common Pool Method" for distribution of profit between depositors and shareholders. The application of the above method resulted in:		
Appropriation to depositors	162,448	212,016
Transfer from profit equalisation reserve	3,711	4,994
	<u>166,159</u>	<u>217,010</u>

**28. Basic and diluted earnings per share:**

The calculation of earnings per share is based on earnings of AED 272.0 million (2011: AED 251.1 million) for the year divided by the number of shares outstanding during the year. There is no diluted effect on basic earnings per share.

**29. Cash and cash equivalents:**

Cash and cash equivalents comprise of	2012	2011
Cash and balances with banks and financial institutions	1,783,237	1,770,432
Wakala arrangements with financial institutions	1,880,212	1,988,586
	<u>3,663,449</u>	<u>3,759,018</u>
Less cash reserves with CBUAE	<u>(707,944)</u>	<u>(659,479)</u>
Cash and cash equivalents	<u>2,955,505</u>	<u>3,099,539</u>

Cash reserves with CBUAE are non-profit bearing and not available to fund day-to-day operations of the Bank.

**30. Key accounting estimates, and judgments in applying accounting policies**

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year and the resultant provisions and fair value. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In particular, considerable judgment is required by management in respect of the following:

***Impairment losses on financing receivables and ijarah receivable (Ijarah)***

The Bank reviews its portfolios of financing receivables and ijarah receivable to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio within financing receivables and ijarah receivable before the decrease can be identified with an individual receivable in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss. Experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

***Valuation of financial instruments***

The Group's accounting policy on fair value measurements is discussed in significant accounting policies.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in the market that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuations. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

**30. Key accounting estimates, and judgments in applying accounting policies (continued)**

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark profit rates, credit spreads and other premia use in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like profit rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	Note	Level 1	Level 2	Level 3	Total
31 December 2012					
<b>Financial assets</b>					
Investment securities	11	409,923	-	224,993	634,916
		<u>409,923</u>	<u>-</u>	<u>224,993</u>	<u>634,916</u>
31 December 2011					
<b>Financial assets</b>					
Investment securities	11	282,477	-	262,900	545,377
		<u>282,477</u>	<u>-</u>	<u>262,900</u>	<u>545,377</u>

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the hierarchy for investment securities:

	2012	2011
Balance as at 1 January	262,900	273,282
Total gains or losses:		
in consolidated statement of income	(2,334)	604
in consolidated statement of comprehensive income through OCI	(15,227)	(5,590)
Disposals	(20,346)	(5,396)
Balance at 31 December	<u>224,993</u>	<u>262,900</u>

**31. Segment reporting**

The Bank's activities comprise the following main business segments:

**a. Government and corporate**

Within this business segment the Bank provides companies, institutions and government departments with a range of Islamic financial products and services.

**b. Retail**

The retail segment provides a wide range of Islamic financial services to individuals.

**c. Investment and treasury**

This segment mainly includes income on investments of the Bank and other money market activities.

## 31. Segment reporting (continued)

## d. Subsidiaries

SNH through its divisions is engaged in operating hotels and resorts, catering and related services and Sharjah Islamic Financial service which is offering brokerage services for trading in Islamic Shari'a compliant shares.

	Corporate and government	Retail	Investment and treasury	Subsidiaries	Total
<b>Consolidated statement of income:</b>					
<b>For the year ended 31st December 2012:</b>					
Income from murabaha and leasing	423,466	231,681	40,087	-	695,234
Paid Sukuk	-	-	(70,715)	-	(70,715)
Fees, Commission and other income	35,268	36,701	66,978	-	138,947
Income for subsidiaries	-	-	-	22,135	22,135
Unallocated income	-	-	-	-	26,530
<b>Total income</b>	<b>458,734</b>	<b>268,382</b>	<b>36,350</b>	<b>22,135</b>	<b>812,131</b>
General and administrative expenses	-	-	-	(17,217)	(17,217)
General and administrative expenses - unallocated	-	-	-	-	(319,361)
<b>Net operating income</b>	<b>458,734</b>	<b>268,382</b>	<b>36,350</b>	<b>4,918</b>	<b>475,555</b>
Provisions- net of recoveries	(828)	(36,772)	(8,238)	8,447	(37,391)
<b>Net profit before distribution to depositors</b>	<b>457,906</b>	<b>231,610</b>	<b>28,112</b>	<b>13,365</b>	<b>438,165</b>
Distribution to depositors	(104,882)	(55,909)	(1,657)	-	(162,448)
Transfer to profit equalization reserve - unallocated	-	-	-	-	(3,711)
<b>Net profit for the year</b>	<b>353,024</b>	<b>175,701</b>	<b>26,455</b>	<b>13,365</b>	<b>272,000</b>
<b>Consolidated statement of financial position:</b>					
<b>As at 31st December 2012:</b>					
<b>Assets</b>					
Segment assets	6,626,698	4,227,248	6,210,208	715,740	17,779,894
Unallocated assets	-	-	-	-	536,333
<b>Total assets</b>	<b>6,626,698</b>	<b>4,227,248</b>	<b>6,210,208</b>	<b>715,740</b>	<b>18,316,227</b>
<b>Liabilities</b>					
Segment liabilities	6,485,172	4,896,662	1,934,647	61,932	13,378,411
Unallocated liabilities	-	-	-	-	493,911
<b>Total liabilities</b>	<b>6,485,172</b>	<b>4,896,662</b>	<b>1,934,647</b>	<b>61,932</b>	<b>13,872,331</b>

## 31. Segment reporting (continued)

	Corporate and government	Retail	Investment and treasury	Subsidiaries	Total
<b>Consolidated statement of income:</b>					
<b>For the year ended 31st December 2011:</b>					
Income from murabaha and leasing	402,821	269,268	58,977	-	731,066
Sukuk payable	-	-	(49,112)	-	(49,112)
Fees, commission and other income	39,561	31,984	32,071	23,380	126,996
Unallocated income	-	-	-	-	20,800
<b>Total income</b>	<b>442,382</b>	<b>301,252</b>	<b>41,936</b>	<b>23,380</b>	<b>829,050</b>
General and administrative expenses	-	-	-	(22,871)	(22,871)
General and administrative expenses - unallocated	-	-	-	-	(292,900)
<b>Net operating income</b>	<b>442,382</b>	<b>301,252</b>	<b>41,936</b>	<b>509</b>	<b>514,079</b>
Provisions- net of recoveries	(12,030)	(15,495)	(7,981)	(10,367)	(45,873)
<b>Net profit before distribution to depositors</b>	<b>430,352</b>	<b>285,757</b>	<b>33,955</b>	<b>(9,858)</b>	<b>468,206</b>
Distribution to depositors	(142,931)	(67,395)	(1,690)	-	(212,016)
Transfer to profit equalization reserve - unallocated	-	-	-	-	(4,900)
<b>Net profit for the year</b>	<b>287,421</b>	<b>218,362</b>	<b>32,265</b>	<b>(9,858)</b>	<b>251,190</b>

**Consolidated statement of financial position:**  
As at 31<sup>st</sup> December 2011:

**Assets**

Segment assets	6,139,305	4,154,040	6,238,477	672,112	17,203,934
Unallocated assets	-	-	-	-	529,000
<b>Total assets</b>	<b>6,139,305</b>	<b>4,154,040</b>	<b>6,238,477</b>	<b>672,112</b>	<b>17,733,934</b>

**Liabilities**

Segment liabilities	5,824,985	4,636,141	2,364,034	55,073	12,880,233
Unallocated liabilities	-	-	-	-	446,000
<b>Total liabilities</b>	<b>5,824,985</b>	<b>4,636,141</b>	<b>2,364,034</b>	<b>55,073</b>	<b>13,326,233</b>

31. Segment reporting (continued)  
Geographical Distribution for Assets and Liabilities

Assets 2012:	Total	GCC	Other Arab Countries	North America	Europe	Asia	Other
Cash and balances with banks and financial institutions	1,783,237	1,778,672	407	-	3,530	245	383
International murabaha and wakalah with financial institutions	2,372,410	2,298,950	-	-	73,460	-	-
Financing receivables	2,778,882	2,735,290	-	-	43,592	-	-
Financing ijarah	7,970,489	7,970,489	-	-	-	-	-
Investments securities	856,681	700,063	6,416	2,290	147,654	258	-
Investment properties	223,288	217,086	6,202	-	-	-	-
Properties held for sale	1,083,034	1,083,034	-	-	-	-	-
Other assets	394,381	394,381	-	-	-	-	-
Property and equipment	853,827	853,827	-	-	-	-	-
Total assets	18,316,229	18,031,792	13,025	2,290	268,236	503	383
Liabilities 2012:							
Customers' deposits	11,334,541	11,324,629	82	-	9,809	21	-
Due to banks	470,190	450,262	141	7,706	11,781	300	-
Sukuk payable	1,464,457	-	-	-	1,464,457	-	-
Other liabilities and zakat payable	603,143	603,143	-	-	-	-	-
Shareholders' Equity	4,443,898	4,443,898	-	-	-	-	-
Total liabilities and shareholder's equity	18,316,229	16,821,932	223	7,706	1,486,047	321	-

(Currency: Thousands of U.A.E. Dirhams)

31. Segment reporting (continued)  
Geographical Distribution for Assets and Liabilities (continued)

Assets 2011:	Total	GCC	Other Arab Countries	North America	Europe	Asia	Other
Cash and balances with banks and financial institutions	1,770,432	1,750,353	365	1,721	6,186	225	11,582
International murabaha and wakalah with financial institutions	2,341,534	2,286,122	-	-	55,412	-	-
Financing receivables	2,370,688	2,361,809	-	-	8,879	-	-
Financing ijarah	8,056,746	8,056,746	-	-	-	-	-
Investments securities	734,536	658,851	-	15,428	18,297	34,894	7,066
Investment properties	191,044	183,337	7,707	-	-	-	-
Properties held for sale	1,044,989	1,044,989	-	-	-	-	-
Other assets	408,198	408,198	-	-	-	-	-
Property and equipment	814,975	814,975	-	-	-	-	-
Total assets	17,733,142	17,565,380	8,072	17,149	88,774	35,119	18,648
Liabilities 2011:							
Customers' deposits	10,398,853	10,387,086	-	-	11,702	65	-
Due to banks	900,972	900,866	-	-	-	106	-
Sukuk payable	1,463,062	-	-	-	1,463,062	-	-
Other liabilities	564,097	564,097	-	-	-	-	-
Shareholders' Equity	4,406,158	4,406,158	-	-	-	-	-
Total liabilities and shareholder's equity	17,733,142	16,258,207	-	-	1,474,764	171	-

**32. Contingencies and commitments :**

The Bank provides financial guarantees and letter of credit to meet the requirements of the Bank's customers. These agreements have fixed limits and expirations and are not concentrated in any period.

The amounts reflected for guarantees represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

These contingent liabilities have off balance-sheet credit risk as only the related fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Many of the contingent liabilities will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

	2012	2011
<b>a) Letter of credit - by sector:</b>		
Government departments and authorities	-	1,428
Corporate	143,115	151,678
	<u>143,115</u>	<u>153,106</u>
<b>b) Letter of guarantee - by sector:</b>		
Government of sharjah	87,603	4,500
Government departments and authorities	20	95,750
Corporate	657,376	515,865
Retail and others	44,335	44,332
	<u>789,334</u>	<u>660,447</u>

**Others**

The Bank has issued a financial commitment to the Planning and Survey Department of UAE/Sharjah amounting to AED 181.5 million Dirhams against sale of properties held for sale, under development till the completion of this projects. (2011 : AED 181.5 million).

In addition a financial commitments of AED 80.0 Million which comprises of AED 20.0 million issued to Abu Dhabi securities exchange, AED 30.0 million to Dubai Financial Market and AED 30.0 million to UAE Central Bank against conducting brokerage operations for Sharjah Islamic Financial Services (2011 : AED 80.0 million).

**33. Related parties:**

The Bank has transactions in the ordinary course of business with directors, staff of the Bank and entities of which they are principal owners.

The significant balances outstanding at 31<sup>st</sup> December in respect of related parties included in the consolidated financial statements are as follows:

	2012	2011
Government of Sharjah receivables	1,335,056	1,013,637
Government departments and authorities receivables	2,746,670	2,750,234
Other financing receivables and investing activities	757,856	963,357
Government of Sharjah deposits	24,964	38,518
Government department & authority deposits	3,500,498	1,596,193
Other deposits	284,931	293,997
Contingent liabilities	159,121	115,897
Income from financing and investing activities	285,619	223,702
Depositors' share of profit	27,509	33,585

Key management compensation includes salaries and other short term benefits of AED 14.9 million in 2012 (2011: AED 13.2 million) and post employment benefits of AED 0.9 million in 2012 (2011: AED 0.8 million).

No impairment loss has been recognized against balances outstanding with key management personnel and other related parties

**34. Fiduciary activities:**

The Bank has launched a shari'a compliant investment fund 'Tharwa Islamic Equity Portfolio' ("the fund") during 2005. The Bank in its capacity as a portfolio agent of the fund is responsible for certain fiduciary activities on behalf of customers investing in the fund. At the reporting date, the net assets value per unit of the fund was AED 8.6 million (2011: AED 7.8 million).

**35. Comparatives figures:**

Certain prior year comparatives have been reclassified in order to conform to current year's presentation. The comparatives set out in these consolidated financial statements represent the activities of the Group.

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**SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES**

**DIRECTORS' REPORT AND CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**

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## SHARJAH ISLAMIC BANK

### Directors' Report

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of SHARJAH ISLAMIC BANK ("the Bank") and its subsidiaries ("the Group") for the year ended 31<sup>st</sup> December 2011.

#### Financial Highlights

The Group has reported a net profit of AED 251.1 million for year ended 31<sup>st</sup> December 2011 compared to AED 266.4 million for the corresponding prior year, a decrease of 5.7%.

Compared to December 2010, total assets increased by AED 1.1 billion to reach AED 17.7 billion, an increase of 6.4%, financing receivables and leased assets increased by 8.0 % (AED 773.7 million) to reach AED 10.4 billion.

During the year, the Bank successfully issued a Sukuk of US\$ 400 million (equivalent to AED 1.5 billion) through a Shari'a compliant structure. The Sukuk will be maturing in 5 years i.e May 2016.

The Directors propose to the Shareholders a cash dividend of 6% of the par value of share (AED 0.06 per share) amounting to AED 145.5 million. (compared to cash dividend of AED 133.4 million (AED 0.055 per share on 2010).

The Directors propose the following appropriations for 2011 :-

	AED million
1) Proposed cash dividend	145.5
2) Zakat	49.8
3) Proposed Directors' fees	2.4
Total	<u>197.7</u>

After carrying forward the retained earnings from last year and the above proposed appropriations, total shareholders funds will amount to AED 4.2 billion.

#### Directors:-

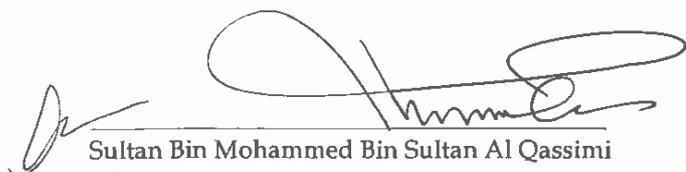
H.H. Shaikh Sultan Bin Mohammed Bin Sultan Al Qassimi	Chairman
H.E. Abdul Rahman Mohammed Nasser Al Owais	Vice Chairman
Mr. Othman Mohammed Sharif Zaman	Member
Mr. Ahmed Ghanim Al Suwaidi	Member
Mr. Ali Bin Salim Al Mazrou	Member
Mr. Ahmed Mohamed Obaid Al Shamsi	Member
Mr. Jassar Dakhil Al Jassar	Member
Mr. Mohammad N. Al Fouzan	Member

#### Auditors:-

KPMG were appointed as auditors of SHARJAH ISLAMIC BANK for the year 2011 at the Annual General Meeting held on 14<sup>th</sup> March 2011.

KPMG expressed their willingness for their re-appointment for the year ending 31 December 2012.

On behalf of the board



Sultan Bin Mohammed Bin Sultan Al Qassimi  
Chairman  
28<sup>th</sup> January 2012



P.O. Box 28653  
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Buhaira Corniche  
Sharjah  
United Arab Emirates

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Website [www.ae-kpmg.com](http://www.ae-kpmg.com)

**Independent auditors' report**  
**The Shareholders**  
**Sharjah Islamic Bank PJSC**

**Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of Sharjah Islamic Bank PJSC ("the Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income (comprising a separate consolidated statement of income and a consolidated statement of comprehensive income), changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the Islamic Shari'a principles and for such controls 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.

**Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant 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 our judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting principles used and 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 opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2011, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Company and the UAE Federal Law No. 8 of 1984 (as amended).

**Report on other legal and regulatory requirements**

As required by the Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Group, and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Group's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2011, which may have had a material adverse effect on the business of the Group's or its consolidated financial position.

KPMG

By: Vijendra Nath Malhotra  
Registration No.:48B

28 JAN 2012

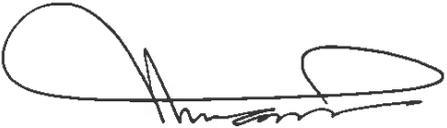
**SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**AS AT 31 DECEMBER 2011**

(Currency: Thousands of U.A.E. Dirhams)

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
<b>Assets:</b>			
Cash and balances with banks and financial institutions	6	1,770,432	1,921,694
Wakalah arrangements with financial institutions	7	2,341,534	2,242,617
Financing receivables	8	2,370,688	2,118,142
Leased assets	9	8,056,746	7,535,640
Investments securities	11	734,536	471,664
Investment properties	12	177,207	179,076
Properties held for sale	13	1,020,803	1,016,675
Other assets	14	408,198	360,777
Property and equipment	15	852,998	820,876
<b>Total assets</b>		<b><u>17,733,142</u></b>	<b><u>16,667,161</u></b>
<b>Liabilities:</b>			
Customers' deposits	16	10,398,853	10,378,134
Due to banks	17	900,972	677,089
Sukuk payable	18	1,463,062	825,831
Other liabilities	19	413,742	300,578
Zakat payable		150,355	137,664
<b>Total liabilities</b>		<b><u>13,326,984</u></b>	<b><u>12,319,296</u></b>
<b>Shareholders equity:</b>			
Share capital	20	2,425,500	2,425,500
Legal reserve	23	1,327,617	1,327,617
Statutory reserve	23	89,008	89,008
Fair value reserve	23	(20,481)	(15,426)
Retained earnings		584,514	521,166
<b>Total shareholders equity:</b>		<b><u>4,406,158</u></b>	<b><u>4,347,865</u></b>
<b>Total liabilities and shareholders equity</b>		<b><u>17,733,142</u></b>	<b><u>16,667,161</u></b>
<b>Contingencies and commitments</b>			
Letters of credit	33	153,106	136,647
Letters of guarantee	33	660,447	607,164
		<b><u>813,553</u></b>	<b><u>743,811</u></b>

The consolidated financial statements were authorized for issue in accordance with a resolution of Directors on 28<sup>th</sup> January 2012 and signed on its behalf by:

  
 \_\_\_\_\_  
 Sultan Bin Mohammed Bin Sultan Al Qassimi  
 Chairman

  
 \_\_\_\_\_  
 Mohammed Ahmed Abdullah  
 Chief Executive Officer

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

The independent auditors' report is set out on page 3.

**SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**  
(Currency: Thousands of U.A.E. Dirhams)

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Income from financing and leasing		731,066	724,787
Profit on sukuks		(49,112)	(9,127)
Fees, commission and other income	24	147,858	164,524
<b>Total income</b>		<b><u>829,812</u></b>	<b><u>880,184</u></b>
General and administrative expenses	25	<u>(315,808)</u>	<u>(300,641)</u>
<b>Net operating income</b>		<b>514,004</b>	<b>579,543</b>
Provisions - net of recoveries	26	(45,873)	(31,442)
<b>Net profit before distribution to depositors</b>		<b><u>468,131</u></b>	<b><u>548,101</u></b>
Distribution to depositors	27	(217,010)	(281,692)
<b>Net profit for the year</b> (Attributable to the shareholders of the Bank)		<b><u>251,121</u></b>	<b><u>266,409</u></b>
Basic and diluted earnings per share (U.A.E. Dirhams)	28	<u>0.10</u>	<u>0.11</u>

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

The independent auditors' report is set out on page 3.

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**SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPERHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**  
(Currency: Thousands of U.A.E. Dirhams)

	<u>2011</u>	<u>2010</u>
Net profit for the year (Attributable to the shareholders of the Bank)	251,121	266,409
Other comprehensive income		
Net change in fair value reserve	(7,157)	(16,309)
Total comprehensive income for the year (Attributable to the shareholders of the Bank)	<u>243,964</u>	<u>250,100</u>

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

The independent auditors' report is set out on page 3.

**SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**  
(Currency: Thousands of U.A.E. Dirhams)

	2011	2010
<b>Cash flows from operating activities:</b>		
Net profit for the period	251,121	266,409
Adjustments:		
Depreciation	25,226	26,512
Amortization of sukuk issuance cost	1,496	737
Provision on customer receivables	36,345	46,589
Provision for impairment on investment securities	1,763	6,877
Revaluation loss on investment properties	1,869	-
<b>Operating profit before changes in operating assets and liabilities</b>	<b>317,820</b>	<b>347,124</b>
<b>Changes in operating assets and liabilities:</b>		
Change in reserve with Central Bank	(79,426)	(5,656)
Change in international murabaha and wakalah with financial institution	(65,814)	(287,134)
Change in financing receivables	(288,891)	460,466
Change in leased assets	(521,106)	(133,313)
Change in other assets	(47,421)	(12,714)
Change in customers' deposits	20,719	517,813
Change in due to banks	223,883	33,433
Zakat payable	12,691	(13,480)
Change in other liabilities	63,365	22,210
<b>Net cash (used in) / provided by operating activities</b>	<b>(364,180)</b>	<b>928,749</b>
<b>Cash flows from investing activities:</b>		
Acquisition of property and equipment	(57,349)	(117,803)
Acquisition in Investment properties - net	1,869	(22,440)
Acquisition in properties held for sale - net	(4,128)	(8,062)
Change in investments securities	(273,659)	26,907
<b>Net cash used in investing activities</b>	<b>(333,267)</b>	<b>(121,398)</b>
<b>Cash flows from financing activity:</b>		
Proceeds from Sukuk	635,735	-
Board of Directors' fees paid	(2,470)	(2,700)
Cash dividends	(133,403)	(115,500)
<b>Net cash provided by / (used in) financing activity</b>	<b>499,862</b>	<b>(118,200)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(197,585)</b>	<b>689,151</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>3,297,124</b>	<b>2,607,973</b>
<b>Cash and cash equivalents, end of year (note 29)</b>	<b>3,099,539</b>	<b>3,297,124</b>

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

 The independent auditors' report is set out on page 3.

**SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**  
(Currency: Thousands of U.A.E. Dirhams)

	ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK					Total shareholders equity
	Share capital	Legal reserves	Statutory reserves	Fair value reserve	Retained earnings	
As at 1 January 2010	2,310,000	1,443,117	89,008	883	421,303	4,264,311
<b>Total comprehensive income for the year</b>						
Profit for the year	-	-	-	-	266,409	266,409
Other comprehensive income						
Net change in fair value reserve	-	-	-	(16,309)	-	(16,309)
Total comprehensive income for the year	-	-	-	(16,309)	266,409	250,100
<b>Transactions with owners recorded directly in equity</b>						
Cash dividends paid	-	-	-	-	(115,500)	(115,500)
Issue of bonus shares	115,500	(115,500)	-	-	-	-
Zakat	-	-	-	-	(48,346)	(48,346)
Directors' remuneration	-	-	-	-	(2,700)	(2,700)
Total Transactions with owners	115,500	(115,500)	-	-	(166,546)	(166,546)
<b>As at 31 December 2010</b>	<b>2,425,500</b>	<b>1,327,617</b>	<b>89,008</b>	<b>(15,426)</b>	<b>521,166</b>	<b>4,347,865</b>
As at 1 January 2011	2,425,500	1,327,617	89,008	(15,426)	521,166	4,347,865
fair value adjustment - IFRS - 9	-	-	-	2,102	(2,102)	-
As at 1 January 2011 (Restated)	2,425,500	1,327,617	89,008	(13,324)	519,064	4,347,865
<b>Total comprehensive income for the year</b>						
Profit for the year	-	-	-	-	251,121	251,121
Other comprehensive income						
Net change in fair value reserve	-	-	-	(7,157)	-	(7,157)
Total comprehensive income for the year	-	-	-	(7,157)	251,121	243,964
<b>Transactions with owners recorded directly in equity</b>						
Cash dividends paid (note 21)	-	-	-	-	(133,402)	(133,402)
Issue of bonus shares						
Zakat	-	-	-	-	(49,799)	(49,799)
Directors' remuneration (note 22)	-	-	-	-	(2,470)	(2,470)
Total Transactions with owners	-	-	-	-	(185,671)	(185,671)
<b>As at 31 December 2011</b>	<b>2,425,500</b>	<b>1,327,617</b>	<b>89,008</b>	<b>(20,481)</b>	<b>584,514</b>	<b>4,406,158</b>

In accordance with the Ministry of Economy & Commerce interpretation of Article 118 of Commercial Law No. 8 of 1984, Directors' remuneration has been treated as an appropriation from equity.

The accompanying notes form an integral part of these consolidated financial statements.  
The independent auditors' report is set out on page 3.

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**SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**  
(Currency: Thousands of U.A.E. Dirhams)

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**1. Legal status and activities**

SHARJAH ISLAMIC BANK ("the Bank") was incorporated in 1975 as a public joint stock company by Emiri Decree issued by His Highness the Ruler of Sharjah, United Arab Emirates. The Bank is engaged in banking activities, financing and investing activities in accordance with its articles of incorporation, Islamic Shari'a principles and regulation of the Central Bank of UAE ("the CBUAE"), which are carried out through its 23 branches (2009: 23 branches) established in United Arab Emirates.

At the extraordinary shareholders' meeting held on 18<sup>th</sup> March 2001 a resolution was passed to transform the Bank's activities to be in full compliance with the Islamic Shari'a rules and principles. The entire process was completed on 30<sup>th</sup> June 2002 ("the transformation date"). As a result the Bank transformed its conventional banking products into Islamic banking products during the 6-month period ended 30<sup>th</sup> June 2002 after negotiation and agreement with its customers. Primarily, this has resulted in a reduction in its loans and advances which have been transformed into leased assets and financing receivables.

The consolidated financial statements of the Group comprise the Bank and its fully owned subsidiaries incorporated in United Arab Emirates, Sharjah National Hotels (SNH), Sharjah Islamic Financial Service (SIFS), Contact Marketing and ASAS Real Estate (all together referred to as "the Group", also refer note 3). SNH through its divisions is engaged in operating hotels and resorts, catering and related services, whereas SIFS is involved in conducting intermediation in dealing in local market Shari'a compliant shares. Contact Marketing certain support services to the Bank. ASAS Real Estate is involved in the management of Bank's real estate portfolio.

The registered office of the Bank is Post Box No.4, Sharjah, United Arab Emirates.

**2. Disclosure policy**

The Group has laid down the disclosure policy to ensure compliance with all applicable laws concerning disclosure of material non public information, including International Financial Reporting Standards, the CBUAE (lead regulator), BASEL II Pillar 3 guidelines laid down by the CBUAE, Emirates Securities and Commodities Authority (ESCA) and Abu Dhabi Financial Market (ADX).

The following are the key features of the Group's disclosure policy concerning disclosure of financial information (consolidated basis):

**Materiality thresholds**

Information is considered material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions and/or any material information that might affect the share price. The Group, in order to ensure adequate disclosure lays down a materiality threshold, so that no material information is omitted or misstated; at the same time it does not jeopardize its competitive position.

**Internal controls**

In order to ensure true and fair disclosure, the Group has established controls including detailed procedures for finalisation and review of accounting and financial disclosures. In addition the consolidated financial statements are subject to quarterly reviews and audit procedures by the Group's external auditors.

**Frequency and medium of disclosure**

Interim financial results are disclosed on a quarterly basis while complete consolidated financial statements complying with the requirements of IFRS, Basel II Pillar 3 and other guidelines from the CBUAE is made on an annual basis. Disclosures of material non public financial information are made by the Financial Control Department of the Group in coordination with Marketing Department through the following mediums:

- Sending reviewed quarterly and annual audited consolidated financial statements along with Directors' report to ADX and ESCA;
- Hosting quarterly and annual consolidated financial statements on the Group's website and
- Publication of annual audited consolidated financial statements in Arabic news papers after the approval in the Annual General Meeting (AGM).

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### 3. Basis of preparation

#### a. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting standards ("IFRS") as issued by International Accounting Standard Board ("IASB"), guidance of the CBUAE, Islamic Shari'a principles and applicable requirements of the Federal laws relating to Islamic Banks.

#### b. Basis of measurement

The consolidated financial statements have been prepared on the historical basis except for the following that are measured at fair value:

- i) financial assets at fair value through profit or loss (FVTPL);
- ii) financial assets at fair value through other comprehensive income (FVTOCI); and
- iii) investment properties.

#### c. Functional and reporting currency

These consolidated financial statements of the Group have been prepared in UAE Dirhams (AED), which is the Group's functional currency, rounded to the nearest thousand.

#### d. Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. In particular these estimates and judgements relate to impairment losses on financing receivables, leased assets and amortised cost, valuation of financial asset FVTPL and FVTOCI, provisions for doubtful debts and slow moving inventories.

#### e. Changes in accounting policies

##### Overview

Effective 1 January 2011, the Group has changed its accounting policies in the following areas:

- Financial assets and liabilities (early adoption of IFRS 9)
- Disclosure pertaining to Related parties - IAS 24 (revised)

##### i) Financial assets and liabilities (early adoption of IFRS 9)

Effective 1 January 2011, the Group has early adopted IFRS 9 Financial Instruments issued in October 2010.

The requirements of IFRS 9 represent a significant change from the classification and measurement requirements in IAS 39 '*Financial Instruments: Recognition and Measurement*' in respect of financial assets. IFRS 9 contains two primary measurement categories for financial assets: amortised cost and fair value.

Unless it is designated as measured at fair value, a financial asset is measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal outstanding. All other financial assets are measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and receivables.

IFRS 9 requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

For investments in equity instruments that are not held for trading, IFRS 9 allows an irrevocable election, on an investment-by-investment basis, to present fair value changes from the investment in other comprehensive income. Dividends on such investments are generally recognised in profit or loss.

IFRS 9 requires that the effects of changes in credit risk of liabilities designated as at fair value through profit or loss are presented in other comprehensive income unless such treatment would create or enlarge an accounting mismatch in profit or loss, in which case all gains or losses on that liability is presented in profit or loss.

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### 3. Basis of preparation (continued)

#### e. Changes in accounting policies (continued)

##### i) Financial assets and liabilities (early adoption of IFRS 9)

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied on a retrospective basis except as described below from 1 January 2011 without restatement of prior periods.

The changes are measured as at the first date of the current reporting period (1 January 2011).

- The assessment of whether a financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
- The designation of certain investments in equity instruments that are not held for trading as at fair value through other comprehensive income.
- The determination of whether the existing designations of liabilities as at fair value through profit or loss would create or enlarge an accounting mismatch in profit or loss. As a result of this analysis no adjustments were required to be made.

Change resulting from assessments made at the date of initial application (1 January 2011) and measured at the date of initial application - investments in unquoted equity instruments, which were previously accounted for at cost in accordance with IAS 39, are now measured at fair value.

Differences between the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in opening retained earnings for the year ended 31 December 2011, i.e. as at 1 January 2011. The provisions of IFRS 9 have not been applied to financial assets and financial liabilities derecognised before 31 December 2010.

The provisions of IFRS 9 have not been applied to the financial assets and financial liabilities derecognised before 31 December 2010.

For more information and details in new classification, see note 4, 11 and 31.

The change in accounting policy does not have any material impact on basic and diluted earnings per share for the year.

The change in accounting policy has been applied retrospectively, in accordance with the transitional provision of IFRS 9, where no restatement of comparative figures was applied.

The impact of this change in accounting policy at the beginning of the current year (as at 1 January 2011) is as follows:

	<u>fair value reserve</u>	<u>Retained earnings</u>
• AFS Investment - cumulative fair value impacts earlier accounted in other comprehensive income	5,447	(5,447)
• AFS Investment - cumulative impairment loss impact earlier accounted in consolidated statement of income	(3,345)	3,345
	<u>2,102</u>	<u>(2,102)</u>

##### ii) Disclosures pertaining to related parties - IAS 24 (Revised)

The Group adopted IAS 24 (Revised): Related Party Disclosures. The Group now discloses government related entities in accordance with the amended definition of related party.

The change in accounting policy was recognised retrospectively in accordance with the transitional provisions of the IAS 24 (Revised): Related Party Disclosures.

For more information and details in new classification, see note 34.

#### 4. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented except as explained in 3(e), which addresses changes in accounting policies.

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#### 4. Summary of significant accounting policies (continued)

##### a. Basis of consolidation

###### i) Subsidiaries

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

###### ii) Funds management

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's funds management is set out in note 35.

###### iii) Transaction eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

###### iv) Special purpose entities

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific financing transaction. The consolidated financial special purpose entities are included in the Group's consolidated financial statement where the substance of the relationship is the Group controls the special purpose entity.

##### b. Non-derivative financial instruments

###### i. Financial assets and liabilities (early adoption of IFRS 9)

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

Investments in equity instruments are classified as financial assets at fair value through profit or loss, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI).

Financial assets measured at FVTPL are measured at fair value, with any gains or losses arising in re-measurement recognised in the consolidated statement of income.

Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated statement of income.

###### *Financial assets at fair value through other comprehensive income (FVTOCI)*

At initial recognition, the Group can make an irrevocable election (on instrument by instrument basis) to designate other investments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

Financial assets measured 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.

Dividends on these investments in equity instruments are recognised in the consolidated statement of income.

###### *Financial assets measured at amortised costs*

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- 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 financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

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#### 4. Summary of significant accounting policies (continued)

##### b. Non-derivative financial instruments (continued)

##### i. Financial assets and liabilities (early adoption of IFRS 9) (continued)

Financial assets measured at amortised costs are initially measured at fair value plus transaction costs. Subsequently, they are measured at amortised costs using the effective yield method less any impairment, with profit recognised on effective yield basis in the consolidated statement of income.

Subsequent to the initial recognition, the Group is required to reclassify investments from amortised costs to FVTPL, if the objective of the business model changes so that the amortised cost criteria is no longer met.

##### *Financing receivables*

Financing receivables are non derivative financial assets with fixed or determinable payment that other than investment securities that are not held for trading. They arise when the Bank provides funds directly to a debtor with no intention of trading in the granted facilities. Financing receivables are initially measured at fair value and subsequently measured at their amortised cost. These are reported net of impairment provisions, if any, to reflect the estimated recoverable amounts. The financing receivables mainly comprise Murabaha and Qard Hasan.

Murabaha is an agreement for sale of commodities purchased by the Bank based on the promise of the customer to buy the commodities at cost plus the agreed profit.

Qard Hasan receivables are non-profit bearing financing receivables whereby the customer borrows funds for a period of time with an understanding that the same amount shall be repaid at the end of the agreed period.

##### *Leased assets ("Ijarah")*

The Lease is classified as a finance lease, when the Bank transfers substantially all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represent finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. The lease agreements provide that the lessor undertakes to transfer the leased property to the lessee upon receiving the final rental payment or the agreed price. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

##### ii. Financial assets and liabilities as per IAS 39 (for comparative purpose only)

##### *Held-to-maturity financial assets*

Held-to maturity financial assets are non derivative financial assets with fixed or determinable payment and fixed maturities that the Bank's management has the positive intent and ability to hold to maturity.

##### *Financial assets at fair value through profit or loss*

Financial assets are classified in this category if acquired principally for the purpose of selling in the short term or if so designated by the management.

##### *Available-for-sale financial assets*

Available-for-sale financial assets are non derivative financial assets that are not designated as another category of financial assets. Available-for-sale financial assets are carried at fair value.

##### *Gains and losses on subsequent measurement*

Gains and losses arising in the fair value of financial assets at fair value through profit or loss are recognised in the consolidated statement of income.

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#### 4. Summary of significant accounting policies (continued)

##### b. Non-derivative financial instruments (continued)

##### ii. Financial assets and liabilities as per IAS 39 (for comparative purpose only)

###### *Gains and losses on subsequent measurement (continued)*

Gains and losses arising in the fair value of available-for-sale financial assets are recognised in consolidated statement of comprehensive income through other comprehensive income (OCI) until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the consolidated statement of income.

###### *Impairment*

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment for specific assets, or a group of similar assets. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of specific assets or a group of similar assets is calculated as the present value of the expected future cash flows.

Movement in provisions is recognised in the consolidated statement of income. Financial assets are written off only in circumstances where all reasonable restructuring and collecting activities have been exhausted.

Available-for-sale financial assets are re-measured to fair value in the consolidated statement of comprehensive income through other comprehensive income.

The recoverable amount of any equity instrument is its fair value. Where an asset measured to fair value directly through consolidated statement of comprehensive income is impaired, and an increase in the fair value of the asset was previously recognised in consolidated statement of comprehensive income, the increase in fair value of the asset recognised in statement of comprehensive income is reversed to the extent the asset is impaired. Any additional impairment loss is recognised in the consolidated statement of income.

##### iii. Recognition of financial instruments

Investment are recognised on the trade date which is the date on which the Group commits to purchase or sell the securities. Financing receivables and leased assets ("Ijarah") are recognised when cash is advanced to the borrowers.

Financial liabilities are recognised on the date when the Bank becomes a party to the contractual provisions of the instrument.

##### iv. Derecognition of financial instruments

The Group derecognises financial assets when the contractual right to the cash flows from the financial assets expire, or when it transfers the rights to receive the contractual cash flows on the financial assets in a transaction in which substantially all the risk and rewards of the ownership of the financial assets are transferred to other party.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

##### v. Fair value measurement principles

Fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income is based on quoted market price at the reporting date without any deduction for transaction costs. If quoted market price is not available, the fair value of the instrument is estimated using pricing models or appropriate discounted cash flow techniques. Investments in other unlisted investment funds are recorded at the net asset value per share as reported by the managers of such fund.

##### vi. Measurement of financial instruments

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Subsequent to the initial recognition, financial assets at fair value through profit or loss and fair value at other comprehensive income are stated at their fair value. All other financial instruments are measured at amortised cost less impairment loss, if any.

##### c. Investment properties

Investment properties are stated at fair value determined regularly by an independent valuer. Fair value is based on current prices in an active market for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the consolidated statement of income. Further the management assessed the fair values of investment properties internally to reflect the current market conditions.

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#### 4. Summary of significant accounting policies (continued)

##### c. Investment properties (continued)

Leases of assets under which the lessor effectively retains all risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in the consolidated statement of income on a straight-line basis over the term of the lease.

##### d. Properties held-for-sale

Properties held for sale are measured at a lower of cost and net realizable value (NRV) less impairment loss, if any.

NRV is the estimated selling price, less the estimated selling and other expenses necessary to complete the sale.

##### e. Revenue recognition

###### *Murabaha*

The profit is quantifiable and contractually determined at the commencement of the contract; profit is recognised as it accrues over the period of the contract on effective yield method on the balance outstanding.

###### *Leased assets ("Ijarah")*

Income from leased assets is recognised on an accrual basis on effective yield method.

###### *Fees and commissions*

Fees and commissions income relating to underwriting and financing activities has been accounted from the date of transaction when the service has been provided by the Group, giving rise to that income.

###### *Rental income*

Rental income from investment properties are recognised in the consolidated statement of income on a straight-line basis over the term of the leases.

###### *Dividends income*

Dividends income is recognised in the consolidated statement of income when the Group's right to receive income is established. Usually this is the ex-dividend date for equity security.

###### *Other income*

Other income includes revenue from provision of accommodation, food, beverages and brokerage commission relating to the services provided by the subsidiaries.

Revenue from provision of accommodation, food, beverages and other services is recognised on an accrual basis as the services are rendered.

Commissions are accounted for on the completion of the brokerage deal.

##### f. Zakat

Zakat is computed in accordance with the Bank's Articles of Association and is approved by the Bank's Fatwa and Shari'a Supervisory Board. Zakat is calculated at 2.577% (to account for the difference between the Gregorian and Lunar calendar) on the Bank's reserves, retained earnings and provision for staff end of service benefits at the year end and it is the Bank's shareholders responsibility to pay the Zakat on their respective share in the Bank's capital and the distributed cash dividends.

##### g. Translation of foreign currencies

The accounting records of the Group are maintained in UAE Dirhams. Transactions in foreign currencies are translated to UAE Dirhams at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to UAE Dirhams at the foreign exchange ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost, are translated to UAE Dirhams at the foreign exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

##### h. Other assets

Other assets include profit and other receivables which are stated at amortised cost net of provision for impairment, if any.

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#### 4. Summary of significant accounting policies (continued):

##### i. Other liabilities

These include financial liabilities and other payables. Financial liabilities are measured at fair value on initial recognition. Fair value is determined by discounting the present value of expected future payments at the discount rate that reflects current market assessment of the time value of money for liability of equivalent average duration.

Subsequent to initial recognition these financial liabilities are stated at amortised cost using the effective yield method.

Other payables are stated at cost and are recognised for amounts to be paid in the future for goods or services received, whether or not billed.

##### j. Provisions

A provision is recognised if, the result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at the rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

##### k. Distribution of profit between holders of unrestricted investment deposit and the shareholders

The Bank is complied with Shari'a rules as set out below:

Net gains on all items of income and expenses at the end of each month are the net profit distributable between the shareholders and the holders of unrestricted investment deposits.

- The share of the holders of unrestricted investment deposits is calculated out from the net profit on daily basis after deducting the Bank's Mudaraba percentage agreed upon and declared.
- Due to amalgamation with unrestricted investment funds with the Bank's funds for the purpose of investment, no priority has been given to either party in the appropriation with profit.

##### l. Provision for end-of-service benefits

Provision is made for end-of-service benefits payable to expatriate employees in accordance with the U.A.E. labour laws, calculated on the basis of the individual's period of service at the reporting date and included under "Other liabilities".

With respect to its UAE national employees, the Bank makes contributions to the pension fund established by the General Pension and Social Security Authority as percentage of the employees' salaries. The Bank's obligation is limited to these contributions, which are recognised in the consolidated statement of income.

##### m. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any. Except for freehold land, property and equipment are depreciated on a straight-line basis over their estimated useful lives, using annual rates of 5% to 33% depending on the type of asset involved.

Property that is being constructed or developed for future use as investment property is classified as property and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

##### n. Cash and cash equivalents

Cash and cash equivalents consist of cash and balances with the CBUAE (excluding statutory reserves), current accounts with other banks and financial institutions, and wakalah arrangements with residual maturity up to three months from the reporting date.

##### o. Due to Banks

Amounts due to banks are initially recognised at cost, being the fair value of the consideration received, and are subsequently measured at amortised cost using the effective yield method.

##### p. Customers' deposits

The Bank accepts customer savings and time deposits accounts are on Mudaraba basis, where as current and other similar in nature deposits are accepted on Qard Hassan (profit free loan) basis.

##### q. Offsetting

Financial assets and liabilities are set off and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts.

Income and expenses are presented on a net basis only when permitted by the accounting standards.

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#### 4. Summary of significant accounting policies (continued)

##### r. Fiduciary activities

The Bank is involved in fiduciary activities in its capacity as a portfolio agent that results in the holding or placing of assets on behalf of customers in an equity portfolio. These assets and income arising thereon of the equity portfolio are excluded from these consolidated financial statements, as they are not assets of the Bank.

##### s. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary share. Basic EPS is calculated by dividing the profit or losses attributable to ordinary shareholders of the Bank by the weighted average number of ordinary share outstanding during the year. Diluted EPS is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

##### t. Segment reporting

A segment reporting is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), which is subject to risk and rewards that are different from those of other segments. The Bank's primary format for segment reporting is based on business segments.

##### u. New standards and interpretations not yet adopted

A number of new standards, amendments to standard and interpretations are not yet effective for the year ended 31 December 2011, and have not been early adopted by the Group in preparing these consolidated financial statements:

Standard	Description	Effective date
IFRS-9 (phase 2)	Amortised cost and impairment of financial instrument	1 January 2015
IFRS-10	Consolidated Financial Instruments	1 January 2013
IFRS-12	Disclosure of interest in other entities	1 January 2013
IFRS-13	Fair value measurement	1 January 2013

Management has assessed the impact of the new standards, amendments to standards and interpretations and amendments to published standards, and concluded that they are either not relevant to the Company or their impact is limited to the disclosures and presentation requirement in the financial statements.

#### 5. Risk management

##### i. Risk management framework

The Board of Directors ("the Board") is responsible for the overall framework of the risk governance and management. The Board is responsible for determining risk strategy, setting the Group's risk limits and ensuring that risk exposure is monitored, controlled effectively and kept within set limits. It is also responsible for establishing a clearly defined risk management structure and for approval of the risk policies and procedures, infrastructure and management of all risks related to the Group.

In order to effectively discharge this responsibility the Board is assisted by three Board Committees and five Management Committees. The briefing about the role and function of each committee is as follows:

##### *Executive Committee (EC)*

EC acts as the Board's senior executive management assuring that the Board meets its strategic and operational objectives. EC consists of four member.

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## 5. Risk management (continued)

### i. Risk management framework (continued)

#### *Audit Committee (AC)*

The AC consists of Board members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the Group's financial reporting processes, maintaining accounting policies, reviewing and approving the financial information;
- Reviewing reports on the internal controls;
- Managing the relationship with the Group's external auditors; and
- Reviewing the internal audit reports and monitors control issues of major significance of the Group.

#### *Risk Management Committee (RMC)*

The RMC consists of Board Members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the risks inherent in the businesses of the Bank and the control processes with respect to such risks;
- Reviewing the risk profile of the Bank;
- Managing the Risk Management Compliance and control activities of the Bank;
- Providing a critical assessment of the organisation's business strategies and plans from an Enterprise risk perspective; and
- Ensuring that appropriate policies and procedures are in place for managing risks to which the bank is exposed.

#### *Management Committee (MC)*

The scope of management committee includes all cross functional issues that are not covered in the scope of other committees. Typically, MC covers the areas like strategic, policies, human resources, marketing and administrative processes. In addition, the MC is also responsible to liaise with all other units/divisions across the Group.

#### *Investment Committee (IC)*

The purpose of IC is to review the investment portfolio and transactions emanating from investment division on behalf of Board of Directors.

#### *IT Steering Committee (ITSC)*

The ITSC provides strategic and tactical guidance for managing the Group's overall technology systems in the long and short term, to ensure that Information Technology (IT) initiatives are consistent with the strategic business goals of the Group. The ITSC is charged with assisting the Board in:

- Providing guidance in the prioritisation and implementation of technology initiatives and projects (including those related to infrastructure);
- Reviewing IT operations;
- Reviewing IT Security plans, policies and reports relating to the effectiveness of information security, their implementation and measures taken to address any residual risks;
- Reviewing Business Continuity plans, policies and reports relating to the effectiveness of business continuity, their implementation and measures taken to address any residual risks; and
- Reviewing the Group's IT development, strategic opportunities and plans.

#### *Asset and Liability Committee (ALCO)*

The objective of ALCO is to derive the most appropriate strategy for the Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of profit rate movements, liquidity

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## 5. Risk management (continued)

### i. Risk management framework (continued)

#### *Asset and Liability Committee (ALCO)(continued)*

constraints, and foreign exchange exposure and capital adequacy. The ALCO is also responsible to ensure that all strategies conform to the Group's risk appetite and levels of exposure as determined by the Board of Directors. The roles of ALCO include the following:

- Develop an effective asset and liability management process and related procedures to oversee and monitor the Group's approved policies and procedures in relation to the management and control of the following risks:
  - Liquidity risk - being the risk from the Group's inability to meet obligations when they become due without incurring unacceptable losses because of an inability to liquidate assets or to obtain adequate funding;
  - Market risk - being the following risks;
    - The risk to earnings from adverse movements in profit rates, exchange rates and market volatility and;
    - The risk from changes in the value of portfolio of financial instruments;
  - Statement of financial position risk - being the following risks::
    - The risk to earnings from changes in profit rates and market volatility in retail and wholesale rates;
    - The risk to value and capital from changes in the value of assets and liabilities as a result of changes in profit rates and market volatility; and
    - The risk from material changes in global and domestic economic conditions generally.

#### *Credit Committee (CC)*

CC manages the credit risk of the Group by continuous review of credit limits, policies and procedures, the approval of specific exposures and work out situation, constant revaluation of the loans portfolio and the sufficiency of provisions thereof.

#### *Human Resource Committee (HRC)*

HRC manages the resources, performance and requirement of individuals required by Group on time to time basis.

#### *- Enterprise risk management division (ERMD)*

In order to manage the credit, market, operational and IT risks an ERMD is in place. Its role includes the following:

- develop a strategy, policy and framework for risk management such that these are aligned with business requirements;
- provide support to the Group in implementation of the framework;
- bring together analysis of risk concentrations and sensitivities across the Group;
- act as a point of reference for risk and control matters, providing advice to management, sharing best practices and carrying out special reviews as directed by ALCO; and
- provide independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner.

#### *- Internal audit*

The role of the internal audit department within the Group is to provide independent and objective assurance that the process for indentifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides a independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures. It also provides consulting services which are advisory in nature, and are generally performed at the specific request of the AC.

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## 5. Risk management (continued)

### i. Risk management framework (continued)

#### - *Internal audit (continued)*

It is led by the head of internal audit who reports to the AC of the Board of Directors, with administrative reporting to the Chief Executive Officer (CEO).

To perform its role effectively, internal audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel.

#### - *Internal control*

The role of the internal control department is to ensure that the Group has a sound internal control system in place, meeting international standards and fulfilling the requirements of the Group's management and external regulatory bodies. The functions and responsibilities of the Internal control department include:

- Ensuring that the Group's operational policies, processes and controls are adhered to;
- Ensuring that proper internal controls are in place and that they are functioning as designed in a timely and effective manner;
- Periodic review of the Group's internal control system in order to identify areas where internal controls may be weak, not present and areas where there appear to be excessive controls resulting in operational inefficiency so as to suggest ways to rectify the same;
- Enable the management to conduct an annual review of the efficiency of the internal control system and report its findings; and
- Follow up of the operational activities from a preventive and detective angle and oversee operational controls being exercised to ensure that these are timely and effective.

#### - *Compliance*

The overall mission and role of compliance is to:

- ensure compliance risks are adequately identified, assessed, monitored and controlled in conjunction with Business and other control functions;
- ensure senior management is fully informed of significant compliance issues including "KYC" and "AML", and plans for their resolution;
- contribute to a "no surprise" compliance culture by educating and communicating compliance awareness throughout the Group;
- align annual compliance plans with business strategies and goals; and
- meet regulatory expectations.

### ii. Financial risk management

The Group has exposure to the following primary risks from its use of financial instruments:

Credit risk;  
Liquidity risk;  
Market risk; and  
Operational risk.

Risk is inherent to the Group's business and activities. The Group's ability to identify, assess, monitor and manage each type of risk to which the Group is exposed is an important factor in its financial stability, performance and reputation.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

This note presents information relating to the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

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## 5. Risk management (continued)

### ii. Financial risk management (continued)

#### a. Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's financing receivables, leased assets, Wakalah arrangements with financial institutions and in debt securities.

The Group manages its credit risk exposure through diversification of its financing activities and investments to avoid concentration of risk with individuals or group of customers in specific location or business.

In addition, the Group manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

Regular audits of business units and Group credit processes are undertaken by internal audit division.

#### Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentration of credit risk by industrial sector for financing receivables and leased assets are presented in notes 8b and 9b.

Concentration of credit risk by geographical distribution of due from banks and wakalah arrangements with financial institutions is set out in note 6 and 7.

The Group measure its exposure to credit risk by reference to gross carrying amount of financial assets less amounts offset, profit suspended and impairment losses, if any.

#### Collaterals

The Group holds collateral against financing receivable and leased assets (*Ijarah*) in the form of cash margins, personal guarantees, and mortgages over properties or other securities over assets. Estimates of credit risk mitigation relating to financing receivables and leased assets are based on the value of collateral assessed at the time of financing, and are subsequently monitored on a periodic basis. A quantification of the extent to which collateral and other credit enhancements mitigate credit risk is shown below:

	Against neither past due nor impaired		Against past due but not impaired		Against individually impaired	
	2011	2010	2011	2010	2011	2010
Mortgage of property	5,041,243	3,386,342	1,919,762	1,458,865	253,230	208,088
Listed shares	140,216	260,652	72,379	127,212	-	-
Cash lien and others	74,769	67,282	-	-	-	-
<b>Carrying amount</b>	<b>5,256,228</b>	<b>3,714,276</b>	<b>1,992,141</b>	<b>1,586,077</b>	<b>253,230</b>	<b>208,088</b>

#### Impairment of financial Assets

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment for specific assets, or a group of similar assets. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of specific assets or a group of similar assets is calculated as the present value of the expected future cash flows.

Financial assets are written off only in circumstances where all reasonable restructuring and collecting activities have been exhausted.

#### Financial assets with renegotiated terms

Financial assets with renegotiated terms are those that have been restructured due to deterioration in the borrower's financial position and where the Group has made concession that it would not otherwise consider.

5. Risk management (continued)

ii. Financial risk management (continued)

a. Credit risk (continued)

	Bank and financial institutions		Investment securities		Financing receivable and leased assets		Loans and advances	
	2011	2010	2011	2010	2011	2010	2011	2010
Carrying amount	2,362,688	2,578,566	189,159	169,778	10,427,434	9,653,782	-	-
<b>Individually impaired</b>								
Substandard	-	-	-	-	276,745	136,971	26	26
Doubtful	-	-	-	-	118,930	115,730	9,414	10,489
Loss	-	-	-	-	5,824	2,776	222,288	229,793
Gross amount	-	-	-	-	401,499	255,477	231,728	240,308
Profit in suspense	-	-	-	-	(7,907)	(6,241)	(74,380)	(79,049)
Specific allowance for impairment	-	-	-	-	(132,709)	(113,903)	(157,342)	(161,253)
Total	-	-	-	-	260,883	135,333	6	6
<b>Neither past due nor impaired</b>								
Collective allowance for impairment	2,362,688	2,578,566	189,159	169,778	10,235,804	9,565,945	-	-
Carrying amount	-	-	-	-	(69,253)	(47,496)	(6)	(6)
Includes accounts with renegotiated terms	2,362,688	2,578,566	189,159	169,778	10,427,434	9,653,782	-	-
Past due but not impaired more than 90 days:	-	-	64,123	-	527,916	792,961	-	-
	-	-	-	-	523,141	480,225	-	-

Bank and financial institutions exclude cash in hand and cash reserve deposits with the CBUAE.

The Group's exposure to credit risk relating to off balances sheet commitments are disclosed in note 33. These are neither past due nor impaired

**Settlement risk**

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by ensuring that a trade date is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit

limits monitoring process. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group risk.

## 5. Risk management (continued)

### ii. Financial risk management (continued)

#### b. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. It includes the risk of the inability to fund assets at appropriate maturities and rates and the inability to liquidate assets at reasonable prices and in an appropriate timeframe and inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

The Group's approach to managing liquidity risk is to ensure that, management has diversified funding sources and closely monitors liquidity to ensure adequate funding.

All liquidity policies and procedures are subject to review and approval by ALCO.

#### *Exposure to liquidity risk*

The Group's contractual maturities of financial instruments are summarised in the table below based on the contractual repayment arrangements and does not take account of the effective maturities as indicated by the Group's deposit retention history. The contractual maturities of financial instruments have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is to be maintained.

#### 31 December 2011

	Less than 3 months	3 months to 1 year	1-5 Year	Over 5 Year	Total
<b>Assets</b>					
Cash and balances with banks and financial institutions	1,153,556	616,867	9	-	1,770,432
Wakalah arrangements with financial institutions	1,988,586	352,948	-	-	2,341,534
Financing receivables	651,251	131,992	1,572,141	15,304	2,370,688
Leased assets	376,846	164,771	2,924,280	4,590,849	8,056,746
Investments securities	142,297	91,566	500,673	-	734,536
	<b>4,312,536</b>	<b>1,358,144</b>	<b>4,997,103</b>	<b>4,606,153</b>	<b>15,273,936</b>
<b>Liabilities and equity</b>					
Customers' deposits	8,711,235	1,686,695	923	-	10,398,853
Due to banks	900,972	-	-	-	900,972
Sukuk payable	-	-	1,463,062	-	1,463,062
Other liabilities and zakat	366,354	-	197,743	-	564,097
	<b>9,978,561</b>	<b>1,686,695</b>	<b>1,661,728</b>	<b>-</b>	<b>13,326,984</b>

#### 31 December 2010

	Less than 3 months	3 months to 1 year	1-5 Year	Over 5 Year	Total
<b>Assets</b>					
Cash and balances with banks and financial institutions	1,899,213	22,481	-	-	1,921,694
Wakalah arrangements with financial institutions	1,955,483	287,134	-	-	2,242,617
Financing receivables	467,219	230,431	1,404,580	15,912	2,118,142
Leased assets	254,055	253,131	3,620,683	3,407,771	7,535,640
Investments securities	37,526	97,021	241,976	95,141	471,664
	<b>4,613,496</b>	<b>890,198</b>	<b>5,267,239</b>	<b>3,518,824</b>	<b>14,289,757</b>
<b>Liabilities and equity</b>					
Customers' deposits	8,130,020	2,248,114	-	-	10,378,134
Due to banks	677,089	-	-	-	677,089
Sukuk payable	-	825,831	-	-	825,831
Other liabilities and zakat	335,623	-	102,619	-	438,242
	<b>9,142,732</b>	<b>3,073,945</b>	<b>102,619</b>	<b>-</b>	<b>12,319,296</b>

Cash and balances with banks and financial institutions include mandatory deposits with the CBUAE (refer note 29). The Group's expected cash flows may vary from this analysis, for example, demand deposits from customers are expected to maintain a stable or increasing balance.

## 5. Risk management (continued)

### ii. Financial risk management (continued)

#### c. Market risks

Market risk is the risk that the Group's income and / or value of a financial instrument will fluctuate because of changes in market prices such as profit rates, foreign exchange rates and market prices of equity.

##### Profit rate risk

Profit rate or pricing risk, comprising market and valuation risks, are managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short terms changes in fair value. Overall pricing or profit rate risk positions are managed by the ALCO.

The Bank is not significantly exposed to risk in terms of the re-pricing of its liabilities since primarily in accordance with Islamic Shari'a, the Bank does not provide a contractual rate of return to its depositors.

##### Currency risk

Currency risk is managed on the basis of limits determined by the Board of Directors and a continuous assessment of the Bank's open position and current and expected exchange rate movements. The Bank does not engage in foreign exchange trading and where necessary matches currency exposures inherent in certain assets with liabilities in the same or correlated currency.

The Board of Directors has set limits on positions by currency. Positions are closely monitored by assets and liabilities committee to ensure positions are maintained within established limits.

At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

Currency	Net position	
	2011	2010
US dollar	(432,935)	(3,547)
Sterling pound	165	67
Euro	1,837	(79)
Bahrani Dinar	7,418	6,711
Qatari Riyal	349	189
Saudi Riyals	151	1,584
Kuwaiti Dinar	32,558	35,736
Omani Riyal	26,540	26,439

The exchange rate of AED against US Dollar is pegged since November 1980 and the Group's exposure to currency risk is limited to that extent.

##### Equity price risk

Equity price risk arises from the change in fair value of equity instruments. The Group manages this risk through diversification of investment in terms of geographical distribution and industry concentration.

The table summarises the impact of change in equity prices by  $\pm 10\%$  on net profit and other comprehensive income of the Group.

	2011		2010	
	Effect on net profit	Effect on other comprehensive income	Effect on net profit	Effect on other comprehensive income
Financial assets at fair value through profit or loss	6,658	-	66	-
Financial assets at fair value through other comprehensive income	-	21,051	-	-
Available for sale financial assets (for comparative only)	-	-	-	30,122

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## 5. Risk management (continued):

### ii. Financial risk management (continued)

#### d. Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage, to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity

The Group has established a framework of policies and procedures to identify, assess, control, manage and report risks. The Risk Management Committee identify and manage operational risk to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Internal Audit Division. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

### iii. Capital management

#### Regulatory capital

The Group's lead regulator, the CBUAE, sets and monitors regulatory capital requirements.

The Group's objectives when managing capital are as follows:

- Safeguard the Group's ability to continue as a going concern and increase returns for shareholders; and
- Comply with regulatory capital requirements set by the CBUAE.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group's regulatory capital adequacy ratio is set by the CBUAE. The Bank has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the year. The Group has adopted a standardized approach for Credit risk and Market risk and a Basic Indicator approach for Operational Risk as a starting point and is working towards migrating to foundation internal rating based (IRB) and advanced IRB by 2011 and 2016 respectively. There have been no material changes in the Group's management of capital during the year, however during last year, the CBUAE has advised that the capital adequacy ratio should be increased to 11% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 7% by 30 September 2009 and 12% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 8% by 30 June 2010.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, translation reserve and retained earnings
- Tier 2 capital, which includes fair value reserves relating to unrealised gains / losses on financial assets classified as FVTPL, FVTOCI and collective impairment provision.

The following limits have been applied for Tier 2 capital:

Total tier 2 capital shall not exceed 67% of tier 1 capital

Subordinated liabilities shall not exceed 50% of total tier 1 capital

Collective impairment provision shall not exceed 1.25% of total risk weighted assets.

## 5. Risk management (continued)

### iii. Capital management (continued)

The table below summarises the composition of regulatory capital of the Group:

	Basel II		Basel I	
	2011	2010	2011	2010
<b>Tier 1 capital</b>				
Ordinary share capital	2,425,500	2,425,500	2,425,500	2,425,500
Retained earnings	375,238	303,103	375,238	303,103
Statutory and special reserve	89,008	89,008	89,008	89,008
Legal Reserve	1,307,136	1,312,191	1,324,583	1,327,615
<b>Total tier 1 capital base</b>	<b>4,196,882</b>	<b>4,129,802</b>	<b>4,214,329</b>	<b>4,145,226</b>
<b>Tier 2 capital</b>				
Fair value reserve	-	-	(20,481)	(15,426)
Collective impairment provisions	69,259	47,502	-	-
<b>Total tier 2 capital base</b>	<b>69,259</b>	<b>47,502</b>	<b>(20,481)</b>	<b>(15,426)</b>
<b>Total capital base (a)</b>	<b>4,266,141</b>	<b>4,177,304</b>	<b>4,193,848</b>	<b>4,129,800</b>
<b>Risk weighted assets:</b>				
On balance sheet	18,171,064	16,743,999	18,152,677	16,696,502
Off balance sheet	801,159	752,927	226,895	277,021
Credit risk	11,082,940	10,769,632	9,531,778	9,357,724
Market risk	359,367	38,586	-	-
Operational risk	745,692	945,689	-	-
<b>Risk weighted assets</b>	<b>12,187,999</b>	<b>11,753,907</b>	<b>9,531,778</b>	<b>9,357,724</b>
<b>Tier 1 ratio</b>	<b>34.43%</b>	<b>35.14%</b>	<b>44.21%</b>	<b>44.30%</b>
<b>Capital adequacy ratio</b>	<b>35.00%</b>	<b>35.54%</b>	<b>44.00%</b>	<b>44.13%</b>

#### Risk weighted capital requirement

The Group has adopted the standardized approach for credit risk, market risk and basic indicator approach for operational risk for regulatory reporting purposes. The Group's risk weighted capital requirement for credit, market and operation risk are given below:

#### Risk weights for credit risk

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the Standard Portfolio approach mentioned under the CBUAE Basel II Capital Adequacy Framework covering the standardized approach for credit risk. The descriptions of the counterparty classes along with the risk weights used to derive the risk weighted assets are as follows:

#### Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on central banks and sovereigns are risk weighted in accordance with their ratings from acceptable ECAIs, except that, for all GCC sovereigns a 0% weight has been applied.

#### Claims on public sector entities (PSEs)

Domestic currency claims on GCC non commercial PSE were treated as claims on GCC sovereign if their central bank or monetary authority treats them as such. Foreign currency claims on GCC PSE were treated one grade less favorable than its sovereign i.e. 20% risk weight were applied. Claims on other foreign non commercial PSE were treated one grade less favorable than its sovereign. Claims on commercial PSE were treated as claims on corporate.

#### Claims on multilateral development banks (MDBs)

All MDBs are risk weighted in accordance with the banks credit rating except for those members listed in the World Bank Group which are risk weighted at 0%.

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**5. Risk management (continued):**

**iii. Capital management (continued)**

**Claims on banks**

Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims denominated in local currency were assigned more favorable risk weighting. No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

**Claims on corporate portfolio**

Claims on corporate are risk weighted in accordance with ratings from acceptable ECAs. Risk weightings for unrated corporate claims are assigned at 100%.

**Claims on regulatory retail exposures**

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except for past due loans), if it meets the criteria mentioned in the CBUAE BASEL-II guidelines.

**Claims secured by residential property**

A preferential risk weight of 35% was applied on claims that did not exceed AED 10 million and the claim was secured by residential property with LTV of up to 85%. Other claims secured on residential property were risk weighted 100%.

**Claims secured by commercial property**

100% risk weight was applied on claims secured by commercial property.

**Past due exposures**

The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk weighted as follows :

150% risk weight when specific provisions are less than 20% of the outstanding amount of the financing; and

100% risk weight when specific provisions are greater than 20% of the outstanding amount of the financing.

**Equity portfolios**

0% risk weight was applied on equity in trading book. Equity in banking book was risk weighted at 100%.

The risk weighted at 100% for other exposures.

5. Risk management (continued):

iii. Capital management (continued)

Risk weighted assets as per standardized approach is set out below:

2011

Assets classes (on net basis)	On balance sheet - net	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assets
			Exposure before CRM	CRM	After CRM	
Claims on sovereigns	3,452,923	99,968	3,552,891	(25)	3,552,866	-
Claims on non-central government public sector entities (PSES)	1,969,742	1,014	1,970,756	-	1,970,756	19,100
Claims on banks	2,462,659	9,794	2,472,453	-	2,472,453	879,117
Claims on corporate	1,911,297	641,674	2,552,971	(72,388)	2,480,583	2,480,583
Claims included in the regulatory retail portfolio	2,700,648	48,449	2,749,097	(150,653)	2,598,444	2,523,636
Claims secured by residential property	47,885	-	47,885	-	47,885	42,567
Claims secured by commercial real estate	1,346,391	-	1,346,391	-	1,346,391	1,346,391
High risk categories	18,825	-	18,825	-	18,825	28,238
Past due loans	783,994	260	784,254	-	784,254	1,161,587
Other assets	3,104,362	-	3,104,362	-	3,104,362	2,601,721
<b>Total claims</b>	<b>17,798,726</b>	<b>801,159</b>	<b>18,599,885</b>	<b>(223,066)</b>	<b>18,376,819</b>	<b>11,082,940</b>
<b>Total credit risk</b>						<b>11,082,940</b>

2010

Assets classes (on net basis)	On balance sheet - net	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assets
			Exposure before CRM	CRM	After CRM	
Claims on sovereigns	2,447,191	41,021	2,488,212	(25)	2,488,187	-
Claims on non-central government public sector entities (PSES)	2,113,606	303	2,113,909	-	2,113,909	22,528
Claims on banks	2,682,163	13,893	2,696,056	-	2,696,056	1,004,999
Claims on corporate	1,950,179	645,113	2,595,292	(177,549)	2,417,743	2,417,743
Claims included in the regulatory retail portfolio	2,447,398	52,507	2,499,905	(284,181)	2,215,724	2,141,741
Claims secured by residential property	73,782	-	73,782	(824)	72,958	66,342
Claims secured by commercial real estate	1,524,342	-	1,524,342	(1,083)	1,523,259	1,523,259
High risk categories	18,825	-	18,825	-	18,825	28,237
Past due loans	612,902	90	612,992	(45)	612,947	905,514
Other assets	2,873,611	-	2,873,611	-	2,873,611	2,659,269
<b>Total claims</b>	<b>16,743,999</b>	<b>752,927</b>	<b>17,496,926</b>	<b>(463,707)</b>	<b>17,033,219</b>	<b>10,769,632</b>
<b>Total credit risk</b>						<b>10,769,632</b>

## 5. Risk management (continued):

### iii. Capital management (continued)

#### Risk weights for market risk

Capital requirement for market risk is calculated using standardized approach. The capital requirement for market risk is analysed into capital requirement for profit rate risk, equity risk, foreign exchange risk and option risk.

A summary of capital requirement for market risk under standardized approach under Basel II is set out below

	<u>2011</u>	<u>2010</u>
Profit rate trading risk		
Equity position risk	357,568	8,740
Foreign currency risk	1,799	29,846
	<u>359,367</u>	<u>38,586</u>

#### Risk weight for operation risk

Capital requirement for operation risk is calculated using basic indicator approach. The total capital requirement is calculated as 15% of last three years average income amounts to AED 745.7 thousand (2010: AED 945.7 thousand)

## 6. Cash and balances with banks and financial institutions:

Cash	234,514	204,276
Deposits with CBUAE	1,514,764	1,381,469
Due from banks	21,154	335,949
	<u>1,770,432</u>	<u>1,921,694</u>

#### Due from banks - by geographical distribution

Within UAE	-	327,799
GCC Countries	1,075	3,509
Europe	6,186	2,731
North America	1,721	711
Others	12,172	1,199
	<u>21,154</u>	<u>335,949</u>

## 7. Wakalah arrangements with financial institutions:

Wakalah arrangements represent transactions with local and international banks with residual maturity less than one year from the reporting date.

Wakala arrangements	2,341,534	2,242,617
	<u>2,341,534</u>	<u>2,242,617</u>

#### Wakalah arrangements with financial institutions by geographical distribution:

Within UAE	1,335,072	1,845,711
GCC Countries	951,050	396,906
Others	55,412	-
	<u>2,341,534</u>	<u>2,242,617</u>

## 8. Financing receivables :

Financing receivables are secured by acceptable forms of collateral to mitigate the related credit risk. Financing receivables comprise the following:

### a) By type

Qard Hasan	250,133	149,255
Murabaha receivables	2,231,254	2,056,968
Visa receivables	36,017	39,195
Istisna	7,038	8,263
Provision for impaired financing receivables	(153,754)	(135,539)
	<u>2,370,688</u>	<u>2,118,142</u>

<b>8. Financing receivables (continued):</b>		
<b>b) By sector</b>	<b>2011</b>	<b>2010</b>
Other Government departments	99,992	10,122
Construction	111,016	133,207
Manufacturing	120,120	29,253
Transportation	66,333	59,430
Real Estate	27,128	19,760
Trading	342,758	380,731
Other Services	162,800	147,558
Personal	1,482,759	1,362,755
Others	111,536	110,865
Provision for impaired financing receivables	(153,754)	(135,539)
	<b>2,370,688</b>	<b>2,118,142</b>
<b>c) Impairment provision for financing receivables</b>		
Balance, beginning of the year	135,539	109,394
Written off during the year	(761)	(297)
Additional provision for the year	36,400	32,775
Recoveries and write-backs during the year	(17,424)	(6,333)
	<b>153,754</b>	<b>135,539</b>
<b>9. Leased assets:</b>		
Leased assets are finance leases, which comprise the following:		
<b>a) Net investment</b>		
Gross investment	8,104,954	7,561,500
Provision for impaired leased assets	(48,208)	(25,860)
	<b>8,056,746</b>	<b>7,535,640</b>
<b>b) By sector</b>		
Government Departments and Authorities	3,759,378	3,143,776
Construction	1,533,797	1,724,253
Manufacturing	142,842	48,293
Transportation	115,301	122,094
Real Estate	288,038	214,273
Trading	220,154	286,958
Other Services	381,571	475,962
Personal	1,508,097	1,434,210
Others	155,776	111,681
Provision for impaired leased assets	(48,208)	(25,860)
	<b>8,056,746</b>	<b>7,535,640</b>
<b>c) Impairment provision for leased assets</b>		
Balance, beginning of the year	25,860	17,864
Additional provision for the year	23,559	7,996
Recoveries and write-backs during the year	(1,211)	-
	<b>48,208</b>	<b>25,860</b>
<b>d) The net investment in finance leases comprises:</b>		
Less than one year	541,617	507,186
Between one and five years	2,917,496	3,620,683
More than five years	4,597,633	3,407,771
	<b>8,056,746</b>	<b>7,535,640</b>
<b>10. Loans and advances:</b>		
<b>a) Loans and advances, net</b>		
Loans and advances	157,348	161,259
Less: Provisions for impaired loans and advances	(157,348)	(161,259)
	<b>-</b>	<b>-</b>

**10. Loans and advances (continued)**

Loans and advances are all domestic:

**b) Impairment provision for loans and advances**

	<u>2011</u>	<u>2010</u>
Balance at the beginning of the year	161,259	161,279
Additional provision for the year	-	1
Recoveries and write-backs during the year	<u>(3,911)</u>	<u>(21)</u>
	<u>157,348</u>	<u>161,259</u>

**11. Investments securities:**

Investments comprise the following:

- Financial assets at fair value through profit or loss	334,862	83,490
- Financial assets at fair value through other comprehensive income	210,515	218,396
- Financial assets measured at amortised cost	<u>189,159</u>	<u>169,778</u>
	<u>734,536</u>	<u>471,664</u>

During the year, the Group provided AED 1.8 million (2010: nil) as a specific impairment provisions relating to financial assets at amortised cost

**Investments securities - by geographical distribution**

- Financial assets at fair value through profit or loss:

Domestic	249,986	657
International	<u>84,876</u>	<u>82,833</u>
	<u>334,862</u>	<u>83,490</u>

- Financial assets at fair value through other comprehensive income

Domestic	3,198	4,477
International	<u>207,317</u>	<u>213,919</u>
	<u>210,515</u>	<u>218,396</u>

- Financial assets measured at amortised cost

Domestic	88,080	47,118
International	<u>101,079</u>	<u>122,660</u>
	<u>189,159</u>	<u>169,778</u>

**Investments securities - by quoted / unquoted**

- Financial assets at fair value through profit or loss:

Quoted	279,279	24,127
Unquoted	<u>55,583</u>	<u>59,363</u>
	<u>334,862</u>	<u>83,490</u>

- Financial assets at fair value through other comprehensive income

Quoted	3,198	4,477
Unquoted	<u>207,317</u>	<u>213,919</u>
	<u>210,515</u>	<u>218,396</u>

- Financial assets measured at amortised cost

Quoted	88,080	47,118
Unquoted	<u>101,079</u>	<u>122,660</u>
	<u>189,159</u>	<u>169,778</u>

**12. Investment properties**

Balance as at 1 <sup>st</sup> January	179,076	156,636
Addition	-	22,440
Revaluation loss	<u>(1,869)</u>	<u>-</u>
As at 31 December	<u>177,207</u>	<u>179,076</u>
- Investment properties by geographical distribution:		
Domestic	169,500	171,369
International	<u>7,707</u>	<u>7,707</u>
	<u>177,207</u>	<u>179,076</u>

## 12. Investment properties (continued)

The carrying amount of investment property is the fair value of the property as determined by an independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued and reviewed by the Board of Directors. Fair values were determined having regard to recent market transactions for similar properties in the same location as the Group's investment property.

## 13. Properties held for sale (Domestic):

	2011	2010
Balances as at 1 <sup>st</sup> January	1,016,675	1,008,613
Addition	21,357	92,230
Disposal during the year	(17,229)	(84,168)
As at 31 December	<u>1,020,803</u>	<u>1,016,675</u>

## 14. Other assets:

Prepaid expenses	36,123	22,180
Profit receivable	221,934	197,067
Sundry debtors	15,820	29,499
Assets available for sale-Murabaha	7,615	4,938
Other Receivable SNH	13,421	8,763
Other Receivable SIFS	44,024	68,067
Reimbursements under acceptances	62,273	23,274
Others	6,988	6,989
	<u>408,198</u>	<u>360,777</u>

## 15. Property and equipment:

	Freehold land & buildings	Equipment, furniture & fittings	Computer equipment	Motor vehicles	Capital work in progress	Total
<b>Cost - 2011</b>						
As at 1 January 2011	829,342	97,453	59,933	3,353	35,578	1,025,659
Additions	2,685	3,110	1,961	865	51,900	60,521
Disposals	(6,225)	(10,501)	(6,673)	(860)	-	(24,259)
Capitalised	6,395	746	5,743	-	(12,884)	-
As at 31 December 2011	<u>832,197</u>	<u>90,808</u>	<u>60,964</u>	<u>3,358</u>	<u>74,594</u>	<u>1,061,921</u>
<b>Accumulated depreciation - 2011</b>						
As at 1 January 2011	93,484	82,089	26,382	2,828	-	204,783
Additions	8,450	5,978	10,405	393	-	25,226
Disposals	(4,319)	(9,480)	(6,492)	(795)	-	(21,086)
As at 31 December 2011	<u>97,615</u>	<u>78,587</u>	<u>30,295</u>	<u>2,426</u>	<u>-</u>	<u>208,923</u>
<b>Net book value</b>						
As at 31 December 2011	<u>734,582</u>	<u>12,221</u>	<u>30,669</u>	<u>932</u>	<u>74,594</u>	<u>852,998</u>
As at 31 December 2010	<u>735,858</u>	<u>15,364</u>	<u>33,551</u>	<u>525</u>	<u>35,578</u>	<u>820,876</u>

## 16. Customers' deposits:

	2011	2010
Current accounts	3,013,048	2,239,411
Saving accounts	914,149	836,382
Watany/call accounts	221,555	181,254
Time deposits	6,096,644	6,927,799
Margins	153,457	193,288
	<u>10,398,853</u>	<u>10,378,134</u>

## 17. Due to banks:

On demand	6,006	27,020
Term deposit	894,966	650,069
	<u>900,972</u>	<u>677,089</u>

## 18. Sukuk payable :

Name of issuer	Maturity date	2011		2010	
		Carrying value	Profit rate	Carrying value	Profit rate
SIB Sukuk Company Limited	12 October 2011	-	3 months LIBOR +0.675%	825,831	3 months LIBOR +0.675%
SIB Sukuk Company II Limited (refer below)	25 May 2016	1,463,062	4.715%	-	-
<b>Total</b>		<b>1,463,062</b>		<b>825,831</b>	

On 26 May 2011, the Bank through a shari'a compliant Sukuk Financing arrangement raised medium term finance amounting to AED 1.47 billion (US\$ 400 million). The Sukuk is listed in London Stock Exchange PLC.

The terms of the arrangement includes the transfer of certain leased assets of the Bank on a co-ownership basis to the issuer. The assets are under control of the Bank and shall be continued to be serviced by the Bank.

The Issuer will pay the quarterly distribution amount from the returns received in respect of the leased assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to Sukuk holders on each quarterly distribution date. Upon expiry of this Sukuk the Bank has undertaken to repurchase the assets at the exercise price of US\$ 400 million.

Furthermore, the Bank redeemed the Sukuk matured on 12 October 2011 by repurchase of leased assets at an exercise price of US\$ 225 million (AED 826.4 million).

	2011	2010
<b>19. Other Liabilities:</b>		
Depositors' profit payable	30,257	33,715
Payables subsidiaries	55,073	47,925
Accrual and provision	6,910	14,419
Accounts payable	51,457	28,963
Provision for staff benefits	26,055	23,196
Profit Reserve	14,422	9,428
Managers' cheques	39,378	16,684
Obligations under acceptances	62,273	23,275
Sundry creditors	120,886	94,289
Others	7,031	8,684
	<b>413,742</b>	<b>300,578</b>

## 20. Share Capital:

The Bank's issued and fully paid share capital comprises 2,425,500,000 shares of AED 1.0 each.

	2011		2010	
	No. of shares	Value	No. of shares	Value
Balance at the beginning of the year	2,425,500,000	2,425,500	2,310,000,000	2,310,000
Bonus Share	-	-	115,500,000	115,500
	<b>2,425,500,000</b>	<b>2,425,500</b>	<b>2,425,500,000</b>	<b>2,425,500</b>

## 21. Proposed cash dividend and Bonus Share :

The Directors propose to the Shareholders a cash dividend of 6% of the par value of share (AED 0.06 per share) amounting to AED 145.5 million. (compared to cash dividend of AED 133.4 million (AED 0.055 per share) for 2010).

## 22. Proposed directors' remuneration:

In accordance with the Ministry of Economy & Planning interpretation of Article 118 of Commercial Companies Law No. 8 of 1984, the proposed directors' remuneration of AED 2.4 million (2010: AED 2.5 million) has been treated as a as an appropriation from equity and is included in retained earnings.

### 23. Reserves :

In accordance with the Bank's Articles of Association and Article (82) of Union Law No. 10 of 1980, the Bank transfers 10% of annual net profits, if any, to the legal reserve until it equals 50% of the share capital. Also, in accordance with its Articles of Association, 10% of annual net profits, if any, maybe transferred to a statutory reserve until it is suspended by an ordinary general meeting upon a proposal by the Board of directors. The Statutory reserve can be utilized for the purposes determined by the ordinary general meeting upon recommendations of the Board of Director. The movements in reserves are as follows:

	Legal reserve	Statutory reserve	Fair value reserve
Balance at 1 January 2011	1,327,617	89,008	(15,426)
Fair value adjustment - IFRS - 9	-	-	2,102
Change in fair-value of financial assets	-	-	(7,157)
Balance at 31 December 2011	1,327,617	89,008	(20,481)

The fair value reserve comprises the cumulative net change in fair values of financial assets through other comprehensive. Furthermore, in accordance with the Federal Law No. 8 of 1984, the Bank used their legal reserve which is in excess of 50% of their paid up capital for the issuance of bonus shares.

	2011	2010
<b>24. Fees, commission and other income:</b>		
Fees and commissions	78,147	65,291
Net gains from dealing in foreign currencies	20,999	21,199
Income from investments securities	16,125	25,249
Income from properties held for sale	1,705	12,112
Income from subsidiary companies	21,511	30,790
Other operating income	9,371	9,883
	<u>147,858</u>	<u>164,524</u>
<b>25. General and administrative expenses:</b>		
Staff costs	216,345	205,708
Depreciation	25,226	26,512
Other general and administrative expenses	74,237	68,421
	<u>315,808</u>	<u>300,641</u>
<b>26. Provision - net of recoveries :</b>		
a) provision for customer receivables - net of recoveries		
Provision made during the year	(59,960)	(40,753)
Recoveries during the year	23,615	6,333
	<u>(36,345)</u>	<u>(34,420)</u>
b) Other provision - net of recoveries		
Impairment provision - investment securities	(1,763)	(6,877)
Revaluation loss on investment properties	(1,869)	-
Impairment Provision - customer receivables - SIFS	(6,735)	(5,836)
	<u>(10,367)</u>	<u>(12,713)</u>
c) Other recoveries		
Other recoveries during the year	839	15,691
	<u>839</u>	<u>15,691</u>
<b>Total provision - net of recoveries</b>	<u>(45,873)</u>	<u>(31,442)</u>
<b>27. Distribution to depositors:</b>		
The distribution of profit between depositor and shareholders is made in accordance with the methods approved by the Bank's Fatwa and Shari'a Supervisory Board effective from 1 July 2002. The Bank has adopted the "Common Pool Method" for distribution of profit between depositors and shareholders. The application of the above method resulted in:		
Appropriation to depositors	212,016	274,120
Transfer from profit equalisation reserve	4,994	7,572
	<u>217,010</u>	<u>281,692</u>

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**28. Basic and diluted earnings per share:**

The calculation of earnings per share is based on earnings of AED 271.1 million (2010: AED 266.4 million) for the year divided by the number of shares outstanding during the year. Comparative EPS has been adjusted for the bonus issuance. There is no diluted effect on basic earnings per share.

There is no diluted effect on basic earnings per share.

**29. Cash and cash equivalents:**

Cash and cash equivalents comprise of	2011	2010
Cash and balances with banks and financial institutions	1,770,432	1,921,694
Wakala arrangements with financial institutions	1,988,586	1,955,483
	3,759,018	3,877,177
Less cash reserves with CBUAE	(659,479)	(580,053)
Cash and cash equivalents	<u>3,099,539</u>	<u>3,297,124</u>

Cash reserves with CBUAE are non-profit bearing and not available to fund day-to-day operations of the Bank.

**30. Key accounting estimates, and judgments in applying accounting policies**

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year and the resultant provisions and fair value. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In particular, considerable judgment is required by management in respect of the following:

***Impairment losses on financing receivables and leased assets (Ijarah)***

The Bank reviews its portfolios of financing receivables and leased assets to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio within financing receivables and leased assets before the decrease can be identified with an individual receivable in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss. Experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

***Valuation of financial instruments***

The Group's accounting policy on fair value measurements is discussed in significant accounting policies.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in the market that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuations. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

### 30. Key accounting estimates, and judgments in applying accounting policies (continued)

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark profit rates, credit spreads and other premia use in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like profit rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	Note	Level 1	Level 2	Level 3	Total
31 December 2011					
<b>Financial assets</b>					
Investment securities	11	282,477	-	262,900	545,377
		<u>282,477</u>	<u>-</u>	<u>262,900</u>	<u>545,377</u>
31 December 2010					
<b>Financial assets</b>					
Investment securities	11	28,604	-	273,282	301,886
		<u>28,604</u>	<u>-</u>	<u>273,282</u>	<u>301,886</u>

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the hierarchy for investment securities:

	2011	2010
Balance as at 1 January	273,282	284,796
Total gains or losses:		
in consolidated statement of income	604	(2,928)
in consolidated statement of comprehensive income through OCI	(5,590)	(2,880)
Disposals	(5,396)	(5,706)
Balance at 31 December	<u>262,900</u>	<u>273,282</u>

### 31. Financial assets – accounting classification and fair values

The following table summarises the transitional classification and measurement adjustments to the Group's financial assets on 31 December 2010.

Particulars	Original classification under IAS 39	New classification under IFRS 9	At 31 December 2010		At 1 January 2011	
			Original carrying amount under IAS 39	New carrying amount under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
<i>Investments securities</i>						
Available-for-sale financial assets	Available-for-sale	Fair value through profit or loss	82,833	82,833	82,833	82,833
Available-for-sale financial assets	Available-for-sale	Fair value through other comprehensive income	218,396	218,396	218,396	218,396
Held-to-maturity financial assets	Held-to-maturity	Amortised cost	169,778	169,778	169,778	169,778
Financial assets through profit or loss	Financial assets through profit or loss	Fair value through profit or loss	657	657	657	657
<b>Total</b>			<b>471,664</b>	<b>471,664</b>	<b>471,664</b>	<b>471,664</b>

### 32. Segment reporting

The Bank's activities comprise the following main business segments:

#### a. Government and corporate

Within this business segment the Bank provides companies, institutions and government departments with a range of Islamic financial products and services.

#### b. Retail

The retail segment provides a wide range of Islamic financial services to individuals.

#### c. Investment and treasury

This segment mainly includes income on investments of the Bank and other money market activities.

#### d. Subsidiaries

SNH through its divisions is engaged in operating hotels and resorts, catering and related services and Sharjah Islamic Financial service which is offering brokerage services for trading in Islamic Shari'a compliant shares.

### 32. Segment reporting (continued)

	Corporate and government	Retail	Investment and treasury	Subsidiaries	Total
<b>Consolidated statement of income:</b>					
<b>For the year ended 31st December 2011:</b>					
Income from murabaha and leasing	402,821	269,268	58,977	-	731,066
Sukuk payable	-	-	(49,112)	-	(49,112)
Fees, Commission and other income	39,561	31,984	32,071	23,380	126,996
Unallocated income	-	-	-	-	20,862
<b>Total income</b>	<b>442,382</b>	<b>301,252</b>	<b>41,936</b>	<b>23,380</b>	<b>829,812</b>
General and administrative expenses	-	-	-	(22,871)	(22,871)
General and administrative expenses - unallocated	-	-	-	-	(292,937)
<b>Net operating income</b>	<b>442,382</b>	<b>301,252</b>	<b>41,936</b>	<b>509</b>	<b>514,004</b>
Provisions- net of recoveries	(12,030)	(15,495)	(7,981)	(10,367)	(45,873)
<b>Net profit before distribution to depositors</b>	<b>430,352</b>	<b>285,757</b>	<b>33,955</b>	<b>(9,858)</b>	<b>468,131</b>
Distribution to depositors	(142,932)	(67,395)	(1,690)	-	(212,017)
Transfer to profit equalization reserve - unallocated	-	-	-	-	(4,993)
<b>Net profit for the year</b>	<b>287,420</b>	<b>218,362</b>	<b>32,265</b>	<b>(9,858)</b>	<b>251,121</b>
<b>Consolidated statement of financial position:</b>					
<b>As at 31st December 2011:</b>					
	Corporate and government	Retail	Investment and treasury	Subsidiaries	Total
<b>Assets</b>					
Segment assets	6,139,305	4,154,040	6,238,477	672,112	17,203,934
Unallocated assets	-	-	-	-	529,208
<b>Total assets</b>	<b>6,139,305</b>	<b>4,154,040</b>	<b>6,238,477</b>	<b>672,112</b>	<b>17,733,142</b>
<b>Liabilities</b>					
Segment liabilities	5,824,985	4,636,141	2,364,034	55,073	12,880,233
Unallocated liabilities	-	-	-	-	446,751
<b>Total liabilities</b>	<b>5,824,985</b>	<b>4,636,141</b>	<b>2,364,034</b>	<b>55,073</b>	<b>13,326,984</b>

### 32. Segment reporting (continued)

	Corporate and government	Retail	Investment and treasury	Subsidiaries	Total
<b>Consolidated statement of income:</b>					
<b>For the year ended 31st December 2010:</b>					
Income from murabaha and leasing	367,908	294,249	62,630	-	724,787
Sukuk payable	-	-	(9,127)	-	(9,127)
Fees, commission and other income	33,203	30,886	56,425	30,790	151,304
Unallocated income	-	-	-	-	13,220
<b>Total income</b>	<b>401,111</b>	<b>325,135</b>	<b>109,928</b>	<b>30,790</b>	<b>880,184</b>
General and administrative expenses	-	-	-	(27,470)	(27,470)
General and administrative expenses - unallocated	-	-	-	-	(273,171)
<b>Net operating income</b>	<b>401,111</b>	<b>325,135</b>	<b>109,928</b>	<b>3,320</b>	<b>579,543</b>
Provisions- net of recoveries	9,504	(29,119)	(5,991)	(5,836)	(31,442)
<b>Net profit before distribution to depositors</b>	<b>410,615</b>	<b>296,016</b>	<b>103,937</b>	<b>(2,516)</b>	<b>548,101</b>
Distribution to depositors	(184,846)	(82,611)	(6,663)	-	(274,120)
Transfer to profit equalization reserve - unallocated	-	-	-	-	(7,572)
<b>Net profit for the year</b>	<b>225,769</b>	<b>213,405</b>	<b>97,274</b>	<b>(2,516)</b>	<b>266,409</b>
<b>Consolidated statement of financial position:</b>					
<b>As at 31<sup>st</sup> December 2010:</b>					
<b>Assets</b>					
Segment assets	5,358,240	4,144,693	6,000,424	667,485	16,170,842
Unallocated assets	-	-	-	-	496,319
<b>Total assets</b>	<b>5,358,240</b>	<b>4,144,693</b>	<b>6,000,424</b>	<b>667,485</b>	<b>16,667,161</b>
<b>Liabilities</b>					
Segment liabilities	6,351,989	4,049,260	1,502,920	47,925	11,952,094
Unallocated liabilities	-	-	-	-	367,202
<b>Total liabilities</b>	<b>6,351,989</b>	<b>4,049,260</b>	<b>1,502,920</b>	<b>47,925</b>	<b>12,319,296</b>

32. Segment reporting (continued)  
Geographical Distribution for Assets and Liabilities

Assets 2011:	Total	GCC	Other Arab Countries	North Amrica	Europe	Asia	Other
Cash and balances with banks and financial institutions	1,770,432	1,750,353	365	1,721	6,186	225	11,582
Wakalah arrangements with financial institutions	2,341,534	2,286,122	-	-	55,412	-	-
Financing receivables	2,370,688	2,361,809	-	-	8,879	-	-
Financing ijarah	8,056,746	8,056,746	-	-	-	-	-
Investments securities	734,536	658,851	-	15,428	18,297	34,894	7,066
Investment properties	177,207	169,500	7,707	-	-	-	-
Properties held for sale	1,020,803	1,020,803	-	-	-	-	-
Other assets	408,198	408,198	-	-	-	-	-
Property and equipment	852,998	852,998	-	-	-	-	-
Total assets	17,733,142	17,565,380	8,072	17,149	88,774	35,119	18,648
<b>Liabilities 2011:</b>							
Customers' deposits	10,398,853	10,387,086	-	-	11,702	65	-
Due to banks	900,972	900,866	-	-	-	106	-
Sukuk payable	1,463,062	-	-	-	1,463,062	-	-
Other liabilities and zakat payable	564,097	564,097	-	-	-	-	-
Shareholders Equity	4,406,158	4,406,158	-	-	-	-	-
Total liabilities and shareholder's equity	17,733,142	16,258,207	-	-	1,474,764	171	-

32. Segment reporting (continued)  
Geographical Distribution for Assets and Liabilities (continued)

Assets 2010:	Total	GCC	Other Arab Countries	North America	Europe	Asia	Other
Cash and balances with banks and financial institutions	1,921,694	1,917,053	341	711	2,731	217	641
Wakalah arrangements with financial institutions	2,242,617	2,242,617	-	-	-	-	-
Financing receivables	2,118,142	2,115,732	-	-	2,410	-	-
Financing ijarah	7,535,640	7,535,640	-	-	-	-	-
Investments securities	471,664	401,106	-	16,807	11,305	34,894	7,552
Investment properties	179,076	171,369	7,707	-	-	-	-
Properties held for sale	1,016,675	1,016,675	-	-	-	-	-
Other assets	360,777	360,777	-	-	-	-	-
Property and equipment	820,876	820,876	-	-	-	-	-
<b>Total assets</b>	<b>16,667,161</b>	<b>16,581,845</b>	<b>8,048</b>	<b>17,518</b>	<b>16,446</b>	<b>35,111</b>	<b>8,193</b>
<b>Liabilities 2010:</b>							
Customers' deposits	10,378,134	10,362,254	2,295	-	11,529	-	2,056
Due to banks	677,089	653,811	-	23,089	-	189	-
Sukuk payable	825,831	-	-	-	825,831	-	-
Other liabilities	438,242	438,242	-	-	-	-	-
Shareholders Equity	4,347,865	4,347,865	-	-	-	-	-
<b>Total liabilities and shareholder's equity</b>	<b>16,667,161</b>	<b>15,802,172</b>	<b>2,295</b>	<b>23,089</b>	<b>837,360</b>	<b>189</b>	<b>2,056</b>

### 33. Contingencies and commitments :

The Bank provides financial guarantees and letter of credit to meet the requirements of the Bank's customers. These agreements have fixed limits and expirations and are not concentrated in any period.

The amounts reflected for guarantees represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

These contingent liabilities have off balance-sheet credit risk as only the related fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Many of the contingent liabilities will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

	2011	2010
<b>a)Letter of credit - by sector:</b>		
Government departments and authorities	1,428	3,012
Corporate	151,678	133,090
Retail and others	-	545
	<u>153,106</u>	<u>136,647</u>
<b>b)Letter of guarantee - by sector:</b>		
Government of sharjah	4,500	4,573
Government departments and authorities	95,750	35,244
Corporate	515,865	514,202
Retail and others	44,332	53,145
	<u>660,447</u>	<u>607,164</u>

#### Others

The Bank has issued a financial commitments to Planning and survey department amounting to AED 181.5 million Dirhams against sale of properties held for sale, under development till the completion of this projects.(2010 : AED 181.5 million).

In addition a financial commitments of AED 80.0 million issued to Abu Dhabi securities market against conducting brokerage operations for Sharjah Islamic financial services-one of the Group's subsidiary(2010 : AED 530.0 million).

### 34. Related parties:

The Bank has transactions in the ordinary course of business with directors, staff of the Bank and entities of which they are principal owners.

The significant balances outstanding at 31<sup>st</sup> December in respect of related parties included in the consolidated financial statements are as follows:

	2011	2010
Government of Sharjah receivables	1,013,637	865,113
Government departments and authorities receivables	2,750,234	2,288,786
Other financing receivables and investing activities	963,357	611,069
Government of Sharjah deposits	38,518	137,191
Government department & authority deposits	1,596,193	2,213,253
Other deposits	293,997	223,660
Contingent liabilities	115,897	42,845
Income from financing and investing activities	223,702	258,082
Depositors' share of profit	33,585	36,301

Key management compensation includes salaries and other short term benefits of AED 13.2 million in 2011(2010: AED 13.8 million) and post employment benefits of AED 0.8 million in 2011 (2010: AED 0.7 million).

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**35. Fiduciary activities:**

The Bank has launched a shari'a compliant investment fund 'Tharwa Islamic Equity Portfolio' ("the fund") during 2005. The Bank in its capacity as a portfolio agent of the fund is responsible for certain fiduciary activities on behalf of customers investing in the fund. At the reporting date, the net assets value per unit of the fund was AED 7.8 million (2010: AED 9.8 million)

**36. Fair value of financial instruments:**

The fair value of the Bank's financial instruments approximates the amount for which such instruments could be exchanged between knowledgeable willing parties in an arm's length transaction.

The following summarizes the major methods and assumptions used in estimating the fair value of financial instruments:

Fair value of FVTPL and FVTOCI are based on quoted market price at the reporting date without any deduction for transaction cost that might be incurred on sale or disposal. If quoted market price is not available, fair value is estimated using pricing models or discounted cash flow techniques.

Fair value of investment property is based on the current prices in an active market for similar properties in the same location and condition. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the reporting date. Where other pricing models are used, inputs are based on market related data at the reporting date.

**37. Comparatives figures:**

Certain prior year comparatives have been reclassified in order to conform to current year's presentation. The comparatives set out in these consolidated financial statements represent the activities of the Group.

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