SIB Sukuk Company II Limited

(incorporated as an exempted company in the Cayman Islands under the Companies Law (2010 Revision) with limited liability)

U.S.$400,000,000 Trust Certificates due 2016

Issue Price: 100 per cent.

The U.S.$400,000,000 Trust Certificates due 2016 (the **Certificates**) of SIB Sukuk Company II Limited (acting in its capacity as issuer of the Certificates and as trustee for and on behalf of the Certificateholders (as defined herein) (the **Trustee**)) will be constituted by a declaration of trust (the **Declaration of Trust**) dated on or around 25 May 2011 (the **Closing Date**) made by the Trustee, Sharjah Islamic Bank (**SIB** or the **Bank**) and Citicorp Trustee Company Limited (the **Delegate**). Pursuant to the Declaration of Trust, the Trustee will declare that it will hold the Trust Assets (as defined herein), upon trust absolutely for the Certificateholders pro rata according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificates (the **Conditions**).

On the 25th day of May and November in each year commencing on 25 November 2011 (each, a **Periodic Distribution Date**), the Trustee will pay Periodic Distribution Amounts (as defined herein) to Certificateholders calculated at the rate of 4.715 per cent. per annum on the outstanding face amount of the Certificates as at the beginning of the relevant Return Accumulation Period (as defined herein) on a 30/360 day basis.

The Trustee will pay such Periodic Distribution Amounts solely from the proceeds received in respect of the Trust Assets which include payments by SIB (in such capacity, the **Managing Agent**) under the Management Agreement (as defined herein). Unless previously redeemed in the circumstances described in Condition 6 (*Redemption and Dissolution of Trust*), the Certificates will be redeemed on the Periodic Distribution Date falling on 25 May 2016 (the **Scheduled Dissolution Date**) at the Dissolution Amount (as defined herein). The Trustee will pay the Dissolution Amount solely from the proceeds received in respect of the Trust Assets which include payments by SIB in its capacity as Managing Agent under the Management Agreement and as obligor (the **Obligor**) under the Purchase Undertaking (as defined herein).

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

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for the Certificates to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Certificates to be admitted to trading on the London Stock Exchange's regulated market. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**). References in this Prospectus to Certificates being listed on the London Stock Exchange (and all related references) shall mean that such Certificates have been admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List.

The Certificates are expected to be assigned a rating of BBB+ by Fitch, Inc. and Fitch Ratings Ltd and BBB+ by Standard & Poor's CMS France. A rating is not a recommendation to buy, sell or hold the Certificates (or beneficial interests therein) and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the rating agencies. As of the date of this Prospectus, the above rating agencies are established in the European Union and have applied for registration under Regulation (EU) No 1060/2009 (the **CRA Regulation**), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

The Certificates may only be offered, sold or transferred in registered form in minimum face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

The Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States (as defined under the Securities Act (**Regulation S**)) or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Certificates are being offered or sold solely to persons who are not U.S. persons 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.

Delivery of the Certificates in book-entry form will be made on the Closing Date. The Certificates will be represented by interests in a global certificate in registered form (the **Global Certificate**) deposited on or about the Closing Date with, and registered in the name of a nominee for, a common depositary (the **Common Depositary**) for Euroclear Bank S.A/N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Definitive Certificates evidencing holdings of interests in the Certificates will be issued in exchange for interests in the Global Certificate only in certain limited circumstances described herein.

Joint Bookrunners

HSBC **Standard Chartered Bank**

Joint Lead Managers

HSBC **Standard Chartered Bank** **Liquidity House**

Co-Lead Managers

Qatar Islamic Bank **Abu Dhabi Islamic Bank** **Qatar First Investment Bank**

Dubai Islamic Bank PJSC **Al Hilal Bank PJSC**

The date of this Prospectus is 23 May 2011.

This Prospectus comprises a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC (the **Prospectus Directive**).

Each of the Trustee and SIB accepts responsibility for the information contained in this 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 Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Prospectus in connection with the offering of 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 Managers (as defined under *Subscription and Sale*), the Delegate, the Agents (each as defined herein) or any other person.

Neither the delivery of this Prospectus 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 offering of the Certificates is correct as of any time subsequent to the date hereof. The Managers expressly do not undertake to review the financial condition or affairs of the Trustee during the life of the Certificates or to advise any investor in the Certificates of any information coming to their attention or that there has been no change in the affairs of any party mentioned herein since that date.

None of the Managers, the Delegate or the Agents has 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 Prospectus or any other information provided by the Trustee or SIB in connection with the Certificates, their distribution or their future performance.

Neither this Prospectus nor any other information supplied in connection with the Certificates is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by the Trustee, SIB, the Managers, the Delegate or the Agents that any recipient of this Prospectus should purchase any of the 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 Managers, the Delegate or the Agents accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Trustee and SIB in connection with the Certificates.

No comment is made or advice given by the Trustee, SIB, the Managers, the Delegate or the Agents in respect of taxation matters relating to the 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 THE CERTIFICATES.

This 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 Prospectus and the offer or sale of the Certificates may be restricted by law in certain jurisdictions. None of the Trustee, SIB, the Managers, the Delegate or the Agents represents that this 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 Managers, the Delegate or the Agents which is intended to permit a public offering of any Certificates or distribution of this 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 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 Prospectus or any Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of the Certificates. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Certificates in the United States, the United Kingdom, the Cayman Islands, Malaysia, the Kingdom of Saudi Arabia, Singapore, Hong Kong, the United Arab Emirates (excluding the Dubai International Financial Centre) and the Dubai International Financial Centre, see *Subscription and Sale*.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus contains "forward-looking statements" – that is, statements related to future, not past, events. In this context, forward-looking statements often address SIB's expected future business and financial performance, and often contain words such as "expect," "anticipate," "intend," "plan," "believe," "seek," or "will." Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For SIB, particular uncertainties that could adversely or positively affect its future results include: the behaviour of financial markets and macro-economic conditions, including fluctuations in interest and exchange rates, commodity and equity prices and the value of financial assets; continued volatility and further deterioration of the capital markets; the commercial and consumer credit environment; the impact of regulation and regulatory, investigative and legal actions; strategic actions, including acquisitions and dispositions; future integration of acquired businesses; future financial performance of the banking, financial services and Islamic finance industries; and numerous other matters of national, regional and global scale, including those of a political, economic, business and competitive nature. These uncertainties may cause SIB's actual future results to be materially different than those expressed in its forward-looking statements.

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

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references in this Prospectus to **U.S. dollars**, **U.S.$** and **$** refer to United States dollars being the legal currency for the time being of the United States of America, all references to **dirham** and **AED** refer to United Arab Emirates dirham being the legal currency for the time being of the United Arab Emirates. The dirham has been pegged to the U.S. dollar since 22 November 1998. 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.

Reference to **Sharjah** herein are to the Emirate of Sharjah; and references to the **UAE** herein are to the United Arab Emirates.

Certain figures contained in this Prospectus, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this Prospectus may not conform exactly to the total figure given for that column or row.

Unless otherwise indicated, the financial information herein has been derived from the audited consolidated financial statements of SIB and its subsidiaries as of and for the year ended 31 December 2009 and 31 December 2010 and the reviewed consolidated financial statements for the three month period ending 31 March 2011 (together, the **Financial Statements**). The Financial Statements have been prepared in accordance with International Financial Reporting Standards (**IFRS**) issued by International Accounting Standards Board, guidance of the Central Bank of the UAE, Islamic *Sharia'a* principles and applicable requirements of the UAE.

NOTICE TO CAYMAN ISLAND RESIDENTS

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

NOTICE TO RESIDENTS OF MALAYSIA

The Securities Commission has approved the proposal on 14 April 2011 pursuant to Section 212(5) of the Capital Markets and Services Act, 2007 of Malaysia (the **CMSA**). Please note that the Securities Commission's approval for the proposal shall not be taken to indicate that the Securities Commission recommends the proposal.

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

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 and this Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia directly or indirectly for the purpose of any sale of the Certificates in Malaysia other than to persons falling within the categories specified under (i) Schedule 6 (or Section 229(1)(b)) or Schedule 7 (or Section 230(1)(b)) and (ii) Schedule 8 (or Section 257(3)) of the CMSA.

NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

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 Prospectus is therefore intended only for "accredited investors" (as defined below, see *Subscription and Sale – Kingdom of Bahrain*).

KINGDOM OF SAUDI ARABIA NOTICE

This 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 Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this 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 Prospectus he or she should consult an authorised financial adviser.

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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 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. 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 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 and has no operating history. The Trustee will not engage 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 Management Agreement and the Purchase Undertaking. 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 Management Agreement and the Purchase Undertaking. 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 the Bank

In the course of its business activities, the Bank is exposed to a variety of risks, the most significant of which are liquidity risks, credit risks, operational risks and market risks. In the last three years in particular, difficult macro-economic and financial market conditions have affected and could continue to materially adversely affect the Bank's business.

Political, economic and related considerations

Since the second half of 2007, disruptions in global capital and credit markets, coupled with the re-pricing of credit risk and the deterioration of the real estate markets in the United States, Europe, the UAE, the other countries of the Gulf Cooperation Council (the **GCC**) and elsewhere, have created difficult conditions in the financial markets. These conditions have resulted in historically high levels of volatility across many markets (including capital markets), volatile commodity and real estate prices, decreased liquidity, widening of credit spreads and a lack of price transparency in certain markets and the failures of a number of financial institutions in the United States and Europe.

Although the countries of the GCC were affected by the global financial crisis in the second half of 2007, the most significant adverse effects only impacted the region in the second half of 2008. Since then, there has been a significant slowdown or reversal of the high rates of growth that had been experienced by many countries within the GCC and the UAE. Consequently, certain sectors of the GCC economy that had benefited from the high rate of growth, such as real estate, construction and financial institutions, have been materially adversely affected by the crisis, in particular, due to the volatility of the price of oil.

In response to the global financial crisis, governments and regulators in the UAE, Europe, the United States and other jurisdictions enacted legislation and took measures intended to help stabilise the financial system and increase the flow of credit to their economies. These measures included recapitalisation through the purchase of securities issued by financial institutions (including ordinary shares, preferred shares, or other hybrid or quasi-equity instruments), guarantees by governments outside of the UAE of debt issued by financial institutions, and government-sponsored mergers and acquisitions of and divestments by financial institutions. There can be no assurance that either these measures will continue to positively affect volatility and credit availability or that governments will continue to support recovery in this way.

Whilst the Bank believes that it has implemented the appropriate policies, systems and processes to control and mitigate these risks (please see *Description of Sharjah Islamic Bank PJSC - Risk Management*), investors should note that a worsening of current financial market conditions 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 the Bank irrespective of steps currently taken to adequately control these risks.

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

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

Liquidity risks

Liquidity risks could arise from the inability of the Bank to anticipate and provide for unforeseen decreases or changes in funding sources which could have adverse consequences on the ability of the Bank to meet its obligations when they fall due.

Since the second half of 2008, a liquidity crisis has existed in the global credit markets which initially arose because of a large number of borrower defaults in the sub-prime mortgage financing market in the United States of America, but which has expanded to affect all levels of the international economy.

Liquidity is essential to the business of the Bank and the UAE financial markets have shown comparatively reduced levels of liquidity since the third quarter of 2008. 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 shortage of liquidity for the Bank could have an adverse effect on the business, results of operations, financial condition and prospects of the Bank.

Liability Mismatch Risks

As at 31 December 2010, 78.3 per cent. of the Bank'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 the bank. The existence of maturity profile mismatches may increase the Bank's vulnerability to price competition as the Bank may face increased liquidity risks to the extent that the Bank 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 the Bank.

Credit risks

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 the Bank. Credit risks could arise from a deterioration in the credit quality of specific counterparties of the Bank, from a general deterioration in local or global economic conditions or from systemic risks with the financial systems, all of which could affect the recoverability and value of the assets of the Bank 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, by the correction in the price of oil, which has 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 the Bank directly extends credit and counterparties of the Bank 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 the Bank. Accordingly, the Bank 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 the Bank.

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, the failure of internal systems, equipment and external systems and occurrence of natural disasters. Although the Bank has implemented risk controls and loss mitigation strategies and substantial resources are devoted to developing efficient procedures, it is not possible to eliminate any of the operational risks entirely, which could have an adverse effect on the business, results of operations, financial condition and prospects of the Bank.

Notwithstanding anything in this operational risks risk factor, this risk factor should not be taken as implying that the Bank will be unable to comply with its obligations as a company with securities admitted to the Official List or that the Bank 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 the Bank's internal policies and procedures and other regulatory requirements. See further *Description of Sharjah Islamic Bank PJSC – Risk Management*. Although the Bank'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 the Bank.

Concentration risk

Concentrations in the financing and deposit portfolio of the Bank 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 the Bank shows industry and borrower concentration.

The Bank's 10 largest private sector borrowers represented 21.6 per cent. of the Bank's total financings and receivables as at 31 December 2010. As at 31 December 2010, the Bank's largest funded exposure to a private sector borrower was AED 292.2 million, which constitutes 3.0 per cent. of the Bank's total financings and receivables (as at 31 December 2010) and 7.1 per cent. of its total regulatory capital (total regulatory capital being AED 4.1 billion as at 31 December 2010).

In terms of the industry concentration of the Bank's total credit risk portfolio, as at 31 December 2010, banks and financial institutions accounted for 0.9 per cent., construction and real estate combined accounted for 18.5 per cent., trade and manufacturing accounted for 9.2 per cent., the Government of Sharjah and its dependencies accounted for 31.4 per cent., personal finance accounted for 27.9 per cent. and other sectors accounted for 12.2 per cent.

As at 31 December 2010, the Bank's wholesale banking customers represented 61 per cent. of its combined total deposits. Although the Bank considers that it has adequate access to sources of funding, the withdrawal of a significant portion of these large deposits may have an adverse effect on the financial condition and results of operations of the Bank 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 the Bank'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 the Bank.

Limited Profitability

The Bank 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 the Bank's cautious attitude to risk, the maintenance of a small financing portfolio may restrict the Bank's potential to maximise profit, which could have an adverse effect on the business, results of operations, financial condition and prospects of the Bank.

Market risks

Market risk refers to the risk that the Bank'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. The Bank is exposed to market risk through its diverse financial instruments including sukuk, equities, investment funds and foreign currencies. Although the Bank 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 the Bank.

Legal Risks

The Bank may face certain legal risks from private actions brought against it. Generally as a participant in the financial services industry, it is likely that the Bank may experience, from time to time, a level of litigation and regulatory scrutiny related to its business and operations.

Principal Shareholders and Governmental Interests

As at the date of this Prospectus, the Government of Sharjah holds 31.3 per cent, and Kuwait Finance House 20 per cent. of the share capital of the Bank. By virtue of such shareholding in the Bank, the Government of Sharjah has the ability to influence the business of the Bank 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 the Bank 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 the Bank.

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 the Bank. The reduction or elimination of governmental support could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

The Government of Sharjah does not explicitly or implicitly guarantee the financial obligations of the Bank (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 the Bank's future operations.

Competition

The Bank faces competition in all of its business areas from domestic and foreign banks operating in the UAE. The Bank faces competition from both Islamic banks and conventional banks. As 31 December 2010, there were 51 (comprising of 23 locally incorporated banks and 28 foreign banks) different banks licensed to operate inside the UAE (excluding the Dubai International Financial Centre). There are also an increasing number of Islamic banks and other institutions offering Islamic financial products and services within the UAE. As at 31 December 2010, there were eight Islamic banks and a number of financial institutions offering Islamic products and solutions. Other financial institutions may also consider offering *Sharia'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 the Bank 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 the Bank (see also *Description of Sharjah Islamic Bank PJSC – The Bank's Competition* below).

Impact of Regulatory Changes

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

Foreign exchange movements may adversely affect the profitability of the Bank

The Bank maintains its accounts and reports its results in AED. The UAE dirham has been pegged at a fixed exchange rate to the U.S. dollar since 22 November 1980. The Bank is exposed to the potential impact of any alteration to or abolition of this foreign exchange peg.

Majority of business in Sharjah and the UAE

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

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

Importance of key personnel

The Bank'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. The Bank 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 the Bank currently meets (and exceeds) the UAE Federal Government's "Emiratisation" requirements (in particular, see *Description of Sharjah Islamic Bank PJSC – Competitive Strengths – Strong links with the Community* and *Management of Sharjah Islamic Bank PJSC – Emiratisation*) and believes that its has effective staff recruitment, training and incentive programmes in place, 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 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 the 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 the Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates. An investor in the Certificates must be prepared to hold the Certificates for an indefinite period of time or until their maturity. Application has been made for the listing of the Certificates on the London Stock Exchange but there can be no assurance that any such listing will occur on or prior to the Closing Date or at all or, if it does occur, that it will enhance the liquidity of the Certificates.

The Certificates are limited recourse obligations

The Certificates are not debt obligations of the Trustee. Instead, the Certificates represent a beneficial interest in the Trust Assets. Recourse to the Trustee in respect of the Certificates is limited to the Trust Assets and proceeds of such Trust Assets are the sole source of payments on the Certificates. Upon the occurrence of a Dissolution Event, the sole rights of each of the Delegate and, through the Delegate, the Certificateholders will be against SIB and the Trustee to perform their respective obligations under the Transaction Documents to which it is a party. Certificateholders will otherwise have no recourse to the Trustee or SIB in respect of any shortfall in the expected amounts due under the Trust Assets. Each of the Managing Agent and 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 the Managing Agent and SIB, to recover such payments due to the Trustee pursuant to the Transaction Documents. 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, or enforcement with respect to, the Trust Assets will be sufficient to make all payments due in respect of the Certificates. After enforcing or realising the Trust Assets and distributing the net proceeds of the 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 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 the Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, the obligations of the Trustee in respect of the Certificates are not secured in any way and the Certificates are unsecured instruments, and under no circumstances (including the occurrence of a Dissolution Event) shall the Delegate or any Certificateholder have: (i) any right to cause the sale or other disposition of any of the Trust Assets except pursuant to the Transaction Documents; or (ii) any other recourse against the Sukuk Ijara Assets and the Investments, except the right to receive distributions derived from the Sukuk Ijara Assets and the Investments in accordance with the Conditions, and the sole right of 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 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, as a result of certain changes affecting taxation in the Cayman Islands or the United Arab Emirates (as the case may be) or in each case any political subdivision or any authority thereof or therein having power to tax, the Trustee may terminate the Trust upon giving notice in accordance with the Conditions and in consequence of such termination the Certificates will be redeemed in whole but not in part. During any period during which the Trustee may elect to redeem the Certificates in this fashion, the market value of the Certificates generally will not rise above the Dissolution Amount payable.

Risk factors relating to the Ijara Assets

Liability attaching to owners of assets

In order to comply with the requirements of *Sharia'a*, the Seller conveys, sells and transfers the Ijara Assets (together with all of its rights, title, interests, ownership, benefits and entitlement in, to and under such assets) the Trustee either on the Closing Date under the Purchase Agreement or subsequently pursuant to the Ijara Assets Sale Undertaking. The Trustee will declare a trust in respect of the Trust Assets (which shall include the Trustee's rights to the Ijara Assets) in favour of Certificateholders pursuant to the Declaration of Trust. Accordingly, Certificateholders will have ownership interests in the Ijara Assets (including all rights, title, interests, ownership, benefits and entitlement in, to and under such assets) purchased by the Trustee and form the Sukuk Ijara Assets unless the transfer of such Ijara Assets is prohibited by any applicable law. However, to the extent that a third party is able to establish a direct claim against the Trustee or any Certificateholders on the basis of a legal or other ownership interests in any of the Sukuk Ijara Assets (an **Affected Ijara Asset**), the Trustee has the right in the Purchase Agreement or, as the case may be, the Ijara Assets Sale Undertaking to return such Affected Ijara Asset to SIB and receive from SIB a refund of an amount equal to the Value of the Affected Ijara Asset. To the extent that SIB is unable to accept the return of the Affected Ijara Asset it has agreed to indemnify the Trustee and Certificateholders against any such liabilities. In the event that SIB is unable to meet any such claims then Certificateholders may suffer losses in excess of the original nominal amount invested.

Due Diligence

No investigation or enquiry will be made and no due diligence will be conducted in respect of any of the Ijara Assets to be purchased by the Trustee pursuant to the Purchase Agreement or the Ijara Assets Sale Undertaking. The Sukuk Ijara Assets shall be selected by the Seller and the Certificateholders shall have no ability to influence this selection. Only limited representations will be obtained from the Seller in respect of the Sukuk Ijara Assets. In particular, the precise terms of the Ijara Contract underlying each Sukuk Ijara Asset will not be known (including whether there are any restrictions on transfers of any further obligations required to be performed by SIB to give effect of the transfer of the Sukuk Ijara Assets). No investigation will be made as to the manner in which the Sukuk Ijara Assets may be validly transferred or whether a trust may be validly declared over such assets as a matter of either the law or the jurisdiction where the relevant asset is located at the relevant time or the governing law of the Ijara Contract. No steps will be taken to perfect any transfer of any of the Sukuk Ijara Assets or otherwise give notice of the lessee of the relevant Ijara Contract. Lessees under the Ijara Contracts may have rights of set off or counterclaim against the Seller in respect of the corresponding Sukuk Ijara Assets.

The Certificateholders shall have no recourse against the Sukuk Ijara Assets other than the right to receive distributions derived from the Sukuk Ijara Assets in accordance with the Transaction Documents and the sole right of the Certificateholders against the Sukuk Ijara Assets shall be the right to enforce the respective obligations of the Trustee, the Managing Agent and SIB under each of the Transaction Documents to which it is a party.

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 or by the Trustee in respect of the Certificates could become subject to taxation. The Management Agreement, Purchase Undertaking and the Sale Undertaking each require the Managing Agent and SIB, respectively to pay additional amounts in the event that any withholding or deduction is required to be made in respect of payments made by it to the Trustee which are intended to fund Periodic Distribution Amounts and the Dissolution Amount. Condition 10 (*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 10 (*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 made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period, Luxembourg and Austria may instead apply an optional information reporting system whereby if a beneficial owner does not comply with one of two procedures for information reporting, the Member State will levy a withholding tax that may rise over time to 35.0 per cent. on payments to such beneficial owner (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 (Switzerland, Andorra, Liechtenstein, Monaco and San Marino) and certain dependent or associated territories of certain Member States (including Jersey, Guernsey, Isle of Man, Montserrat, British Virgin Islands, Netherlands Antilles and Aruba) have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a paying agent (within the meaning of the Savings Directive) within its jurisdiction to, or collected by such paying agent for, an individual resident or certain limited types of entities established in a Member State.

Belgium previously also adopted a transitional withholding system, but has now opted, by two Royal Decrees dated 27 September 2009 and published in the Belgium State Gazette on 1 October 2009, to provide details of payments of interest in accordance with the Savings Directive, as from 1 January 2010.

On 15 September 2008, the European Commission issued a report to the Council of the European Union on the operation of the Savings Directive, which included the Commission's advice on the need for changes to the Savings Directive. On 13 November 2008, the European Commission published a more detailed proposal for amendments to the Savings Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Savings Directive, they may 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 any Certificate as a result of the imposition of such withholding tax. The Trustee is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive or any other directive implementing the conclusions of the ECOFIN Council Meeting of 26 to 27 November 2000.

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 Purchase Undertaking, the Sale Undertaking and the Management Agreement and, consequently, the Trustee's ability to make payments to Certificateholders. There is little precedent to predict how a claim on behalf of Certificateholders against SIB would be resolved.

Enforcement risk

Ultimately, the payments under the Certificates are dependent upon SIB (as Seller, Managing Agent and Obligor) making payments to the Trustee in the manner contemplated under the Transaction Documents to which they are a party. 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 the Transaction Documents will be governed by English law and referred to arbitration in London under the LCIA Arbitration Rules. 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. Until recently, foreign arbitral awards had only ever been enforced in the UAE pursuant to a bilateral treaty, but UAE courts have recently enforced foreign awards under the New York Convention. There is, however, no system of binding judicial precedent in the UAE and it is unclear if these decisions are subject to any appeal. How the New York Convention provisions would be interpreted and applied in practice by the courts therefore remains largely untested.

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 its operations and the majority of its 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.

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

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 for the issue of the Certificates is based on English and Cayman Islands law and administrative practices in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to English or Cayman Islands law or administrative practices in either jurisdiction after the date of this 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, 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 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.

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 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.

Suitability of investments

The Certificates 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 Certificates, the merits and risks of investing in the Certificates and the information contained in this 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 Certificates and the impact the 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 Certificates, including where the currency of payment is different from the potential investor's currency;

(d) understand thoroughly the terms of the 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.

Consents to variation of Transaction Documents and other matters

The Declaration of Trust 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 of, or to the waiver or authorisation of any breach or proposed breach of, the Conditions or any provisions of the Declaration of Trust or any other Transaction Document or determine that any Dissolution Event or Potential Dissolution Event shall not be treated as such in relation to the Declaration of Trust if, in the opinion of the Delegate, such modification (a) is of a formal, minor or technical nature, or (b) is made to correct a manifest error or an error which is, in the opinion of the Delegate, proven, or (c) is not materially prejudicial to the interest of Certificateholders. Unless the Delegate otherwise decides, any such modification, waiver, authorisation or determination may be made on such terms and subject to such conditions (if any) as the Delegate may determine and shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

Reliance on Euroclear and Clearstream, Luxembourg procedures

The Certificates 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 the 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 beneficial interests in the Global Certificate. While the Certificates are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Certificates are represented by the Global Certificate, the Trustee will discharge its payment obligation under the Certificates by making payments through the relevant clearing systems. A holder of a beneficial interest in the 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, beneficial interest in the Global Certificate.

Holders of beneficial interests in the 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.

Sharia'a rules

Dar Al Sharia, SIB's Sharia'a Committee, HSBC's Central Shariah Committee and the Sharia'a Supervisory Board 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'ah compliant by any *Sharia'a* board or *Sharia'a* scholars. None of the Trustee, SIB or the Managers makes any representation as to the *Sharia'a* compliance of the Certificates and potential investors are reminded that, as with any *Sharia'a* views, differences in opinion are possible. Potential investors should obtain their own independent *Sharia'a* advice as to the compliance of the Transaction Documents and the issue and trading of the Certificates with *Sharia'a* principles.

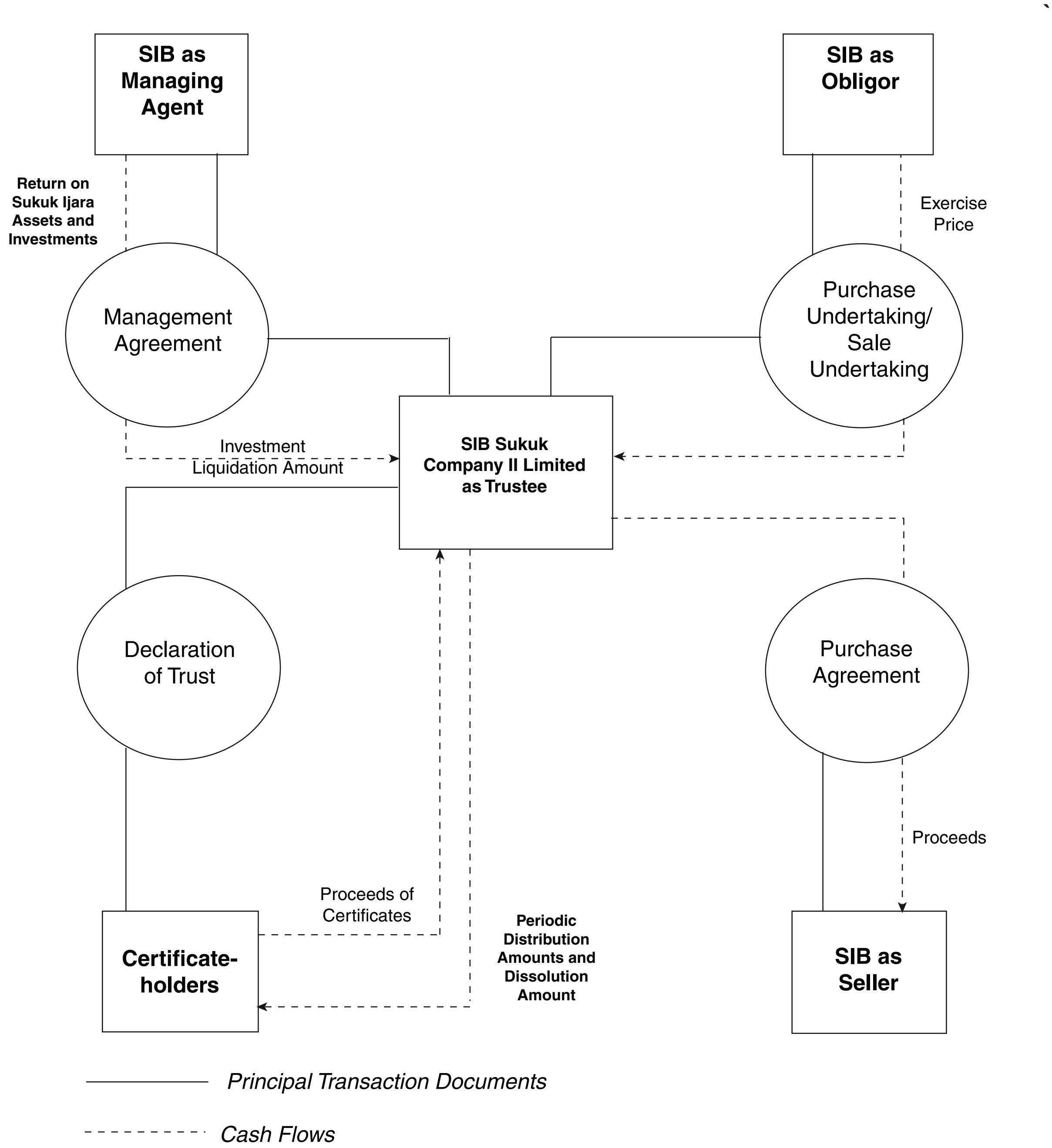
The GCC may enter into a monetary union

There is the possibility that Bahrain, Kuwait, the Kingdom of Saudi Arabia and the State of Qatar may each abandon their respective national currencies within the next few years. If a single GCC currency is adopted, the necessary convergence of laws, policies and procedure will bring significant changes to the economic and political infrastructure in each of the GCC states. As yet there has been no announcement of an official timetable for the progression of monetary union and there are currently no details of new legislation or policies. Investors should, however, be aware that new legislation and any resulting shift in policy and procedure in the UAE could affect the Bank's ability to perform its obligations in respect of the Certificates issued under the Programme.

STRUCTURE DIAGRAM AND CASHFLOWS

Set out below is a simplified structure diagram and description of the principal cash flows underlying the transaction. Potential investors are referred to the Conditions and the detailed descriptions of the relevant Transaction Documents set out in the Section entitled "Summary of the Principal Transaction Documents" for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below.

Structure Diagram



Payments by the Certificateholders and the Trustee

On the Closing Date, the Certificateholders will pay the issue price in respect of the Certificates to the Trustee. The Trustee will declare a trust over those proceeds in favour of the Certificateholders and act as trustee on their behalf. The Trustee will pay such amount to or to the order of SIB (as Seller) as the purchase price payable under the Purchase Agreement for the conveyance, sale and transfer to the Trustee of a portfolio of Ijara Assets identified in a schedule to the Purchase Agreement together with all of SIB's rights, title, interests, ownership, benefits and entitlements in, to and under such Ijara Assets.

Periodic Distribution Payments

Prior to each Periodic Distribution Date, the Managing Agent will pay to the Trustee an amount reflecting the profit earned in respect of the Sukuk Ijara Assets and any Investment, which is intended to be sufficient to fund the Periodic Distribution Amounts payable by the Trustee under the Certificates and shall be applied by the Trustee for that purpose. If the returns generated by the Sukuk Ijara Assets and Investments in relation to any Periodic Distribution Date are greater than the Periodic Distribution Amount payable on that Periodic Distribution Date, such amounts shall be credited to a separate account (the **Reserve Account**) by the Managing Agent. In the event that the returns generated by the Sukuk Ijara Assets and Investments are insufficient on any Periodic Distribution Date to fund the Periodic Distribution Amount due, the Managing Agent shall use any amounts standing to the credit of the Reserve Account and, if insufficient funds are available in the Reserve Account, the Managing Agent may make a *Sharia'a*-compliant liquidity facility available to the Trustee in the amount of the shortfall.

Dissolution Payments by the Obligor and the Managing Agent

On the Scheduled Dissolution Date, the Trustee will have the right under the Purchase Undertaking to require SIB (as Obligor) to purchase at the Exercise Price (as defined below) the Sukuk Ijara Assets together with all of the Trustee's rights, title, interests, ownership, benefits and entitlements in, to and under such Sukuk Ijara Assets. In addition, the Managing Agent has irrevocably and unconditionally undertaken to liquidate the Investments on or prior to the Scheduled Dissolution Date and pay to the Trustee an amount equal to the aggregate amount invested by the Managing Agent in such Investments together with all return generated by and received in respect of such Investments (the **Investment Liquidation Amount**). The aggregate of: (i) the Exercise Price payable by the Obligor to the Trustee pursuant to the Purchase Undertaking; and (ii) the Investment Liquidation Amount payable by the Managing Agent to the Trustee pursuant to the Management Agreement is intended to fund the Dissolution Amount payable by the Trustee under the Certificates. The Managing Agent has undertaken to the Trustee in the Management Agreement that it shall ensure that at all times the aggregate of the Value of the Sukuk Ijara Assets and the Investments is at least equal to the Aggregate Face Amount of the Certificates

The Certificates may be redeemed prior to the Scheduled Dissolution Date for the following reasons: (a) redemption following a Dissolution Event; or (b) an early redemption for tax reasons. In each case, the amounts payable by the Trustee on the due date for redemption will be funded by SIB (as Obligor) purchasing from the Trustee the Sukuk Ijara Assets and paying the Exercise Price (as defined below) to (or to the order of) the Trustee pursuant to the terms of the Purchase Undertaking or Sale Undertaking, as the case may be and the Managing Agent paying to the Trustee the Investment Liquidation Amount.

Purchase of Certificates by SIB and cancellation

SIB may at any time purchase Certificates at any price in the open market or otherwise. Where SIB has purchased Certificates and wishes to cancel those Certificates (such Certificates, the **Purchased Certificates**), SIB may deliver a cancellation notice (a **Cancellation Notice**) to the Trustee pursuant to the Sale Undertaking obliging the Trustee to cancel the Purchased Certificates and, as consideration for such cancellation, transfer to SIB a proportion of the Sukuk Ijara Assets and Investments with a Value equal to the face amount of such Purchased Certificates.

OVERVIEW OF THE OFFERING

The following overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus. This overview may not contain all of the information that prospective investors should consider before deciding to invest in the Certificates. Accordingly, any decision by a prospective investor to invest in the Certificates should be based on a consideration of this Prospectus as a whole.

Words and expressions defined in "Terms and Conditions of the Certificates" and "Summary of the Principal Transaction Documents" shall have the same meanings in this overview. Reference to a "Condition" is to a numbered condition of the Conditions*.*

Parties

Trustee	SIB Sukuk Company II Limited (the **Trustee**), a limited liability exempted company incorporated in accordance with the laws of, and formed and registered in, the Cayman Islands. The Trustee has been incorporated solely for the purpose of participating in the transactions contemplated by the Transaction Documents to which it is a party. The Trustee shall on the Closing Date issue the Certificates to the Certificatholders and act as trustee in respect of the Trust Assets for the benefit of the Certificateholders.
Ownership of the Trustee	The authorised share capital of the Trustee is U.S.$50,000 consisting of 50,000 shares of U.S.$1.00 each, of which 250 shares are fully paid up and issued. The Trustee's entire issued share capital is held by MaplesFS Limited, with registered office at PO Box 1093, Queensgate, Grand Cayman KY1-1102, Cayman Islands on trust for charitable purposes.
Administration of the Trustee	The affairs of the Trustee are managed by MaplesFS Limited (the **Corporate Administrator**), who will provide, amongst other things, certain administrative services for and on behalf of the Trustee pursuant to the Corporate Services Agreement dated 25 May 2011 between, *inter alios*, the Trustee and the Corporate Administrator (the **Corporate Services Agreement**).
Seller	Sharjah Islamic Bank (in such capacity, the **Seller**). In accordance with the Purchase Agreement, the Seller will sell a portfolio of Ijara Assets to the Trustee. Pursuant to the Ijara Assets Sale Undertaking the Seller has granted the Trustee the right to require the Seller to convey, sell and transfer to it additional Ijara Assets on the terms set out therein.
Managing Agent	Sharjah Islamic Bank (in such capacity, the **Managing Agent**). In accordance with the Management Agreement, the Managing Agent will provide certain services with respect to the Sukuk Ijara Assets and the Investments. The Managing Agent will make periodic payments to the Trustee from profit received in respect of the Sukuk Ijara Assets and the Investments. These payments are intended to fund the Periodic Distribution Amounts payable by the Trustee in respect of the Certificates. Where there is a shortfall, however, the Managing Agent has agreed that it may provide

	the Trustee with a *Sharia'a* compliant liquidity facility to cover such amounts. On or prior to a Dissolution Date the Managing Agent shall liquidate all Investments and shall transfer to the Transaction Account an amount equal to the aggregate amount invested by the Managing Agent in such Investments together with all return generated by and received in respect of such Investments (the **Investment Liquidation Amount**). The Investment Liquidation Amount payable by the Managing Agent, together with the Exercise Price payable pursuant to the Purchase Undertaking or Sale Undertaking (as the case may be), is intended to fund the Dissolution Amount payable by the Trustee on the redemption of the Certificates in full.
Obligor	Sharjah Islamic Bank (in such capacity, the **Obligor**). In accordance with the Purchase Undertaking, the Obligor will, on the Scheduled Dissolution Date or Dissolution Event Date, be required to purchase at the Exercise Price the Sukuk Ijara Assets together with all of the Trustee's rights, title, interests, ownership, benefits and entitlements in, to and under such Sukuk Ijara Assets. The Obligor shall have the right, under the Sale Undertaking on an early redemption for tax reasons, to require the conveyance, sale and transfer to it at the Exercise Price of the Sukuk Ijara Assets together with all of the Trustee's rights, interests, ownership, benefits and entitlements in, to and under such Sukuk Ijara Assets. The Exercise Price payable by the Obligor, together with the Investment Liquidation Amount payable by the Managing Agent, is intended to fund the Dissolution Amount payable by the Trustee on the redemption of the Certificates in full.
Joint Bookrunners	HSBC Bank plc Standard Chartered Bank
Joint Lead Managers	HSBC Bank plc, Standard Chartered Bank and Liquidity Management House for Investment Co. K.S.C.C.
Delegate	Citicorp Trustee Company Limited. In accordance with the Declaration of Trust, the Delegate will: (i) agree to undertake certain administrative functions in respect of the Certificates and the Transaction Documents and in such capacity, shall act solely as an agent of the Trustee; and (ii) the Trustee will unconditionally and irrevocably delegate to the Delegate certain present and future duties, powers, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust. The appointment of the Delegate does not affect the Trustee's continuing role and obligations as trustee.
Principal Paying Agent and Transfer Agent	Citibank N.A. London Branch
Registrar	Citigroup Global Markets Deutschland AG
Summary of the Transaction Structure and Principal Documents	An overview of the structure of the transaction and the principal cash flows is set out under *Structure Diagram and Cashflows* and a description of the principal Transaction

	Documents is set out under *Summary of the Principal Transaction Documents*.

Summary of the Certificates

Certificates	U.S.$400,000,000 Trust Certificates due 2016.
Ijara Assets and Investments	On the Closing Date the Trustee shall use the proceeds from the issue of the Certificates to purchase a portfolio of Ijara Assets identified in a schedule to the Purchase Agreement from the Seller together with all of the Seller's rights, title, interests, ownership, benefits and entitlements in, to and under such Ijara Assets. Pursuant to the terms of the Management Agreement, the Managing Agent shall use all principal revenues generated by such Ijara Assets to either: (i) purchase additional Ijara Assets from the Seller by exercising the Trustee's rights under the Ijara Assets Sale Undertaking; or (ii) make *Sharia'a* compliant investments (**Investments**) on such terms as determined by it in its absolute discretion. The Ijara Assets transferred to the Trustee must only relate to non-real estate moveable assets and must meet certain other eligibility requirements. The Ijara Assets that may be purchased by the Trustee from SIB pursuant to the Purchase Agreement or Ijara Assets Sale Undertaking may consist of, but shall not be limited to, industrial equipment, construction equipment and consumer goods. The Ijara Assets owned by the Trustee at any time shall constitute the **Sukuk Ijara Assets**. The Sukuk Ijara Assets shall comprise of the Ijara Assets originally purchased by the Trustee pursuant to the Purchase Undertaking, together with each additional Ijara Asset acquired by the Trustee pursuant to the Sale Undertaking but excluding any Ijara Assets which have been transferred to SIB on the expiration of the relevant Ijara Contract or otherwise in accordance with the Transaction Documents.
Trust Assets	Each Certificate evidences an undivided ownership interest in the Trust Assets, subject to the terms of the Transaction Documents and the Conditions, and is a limited recourse obligation of the Trustee. The Trust Assets are all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Sukuk Ijara Assets, the Investments and the Transaction Documents together with all monies standing to the credit of the Transaction Account (as defined below) and all proceeds of the foregoing (the **Trust Assets**).
Closing Date	25 May 2011.
Issue Price	100 per cent. of the aggregate face amount of the Certificates.
Periodic Distribution Dates	The 25th day of May and November in each year commencing on 25 November 2011.
Periodic Distributions	On each Periodic Distribution Date, Certificateholders will receive a Periodic Distribution Amount in U.S. dollars equalling the product of: (a) 4.715 per cent. per annum; and (b) the face amount of their Certificates; and (c) the number

	of days in the relevant Return Accumulation Period calculated on the basis of a year of 12 30-day months divided by 360. See Condition 5 (*Periodic Distributions*).
Return Accumulation Period	The period from and including the Closing Date to but excluding the first Periodic Distribution Date and each successive period from and including a Periodic Distribution Date to but excluding the next succeeding Periodic Distribution Date or, if earlier, the Dissolution Date.
Scheduled Dissolution	The Scheduled Dissolution Date is 25 May 2016. The Trustee shall use the: (a) the Exercise Price payable in accordance with the terms of the Purchase Undertaking or the Sale Undertaking, as the case may be; and (b) the Investment Liquidation Amount payable by the Management Agent in accordance with the terms of the Management Agreement, to redeem the Certificates at the Dissolution Amount and the Trust shall be terminated.
Early Dissolution	Other than as a result of the occurrence of a Dissolution Event or an early termination for tax reasons, the Certificates will not be redeemed and the Trust shall not be terminated prior to the Scheduled Dissolution Date.
Dissolution Events	The Dissolution Events are set out in Condition 12 (*Dissolution Events*). Following the occurrence of a Dissolution Event which is continuing, the Certificates may be redeemed in full at the Dissolution Amount and the Trust terminated.
Dissolution Amount	The aggregate outstanding face amount of the Certificates plus all accrued and unpaid Periodic Distribution Amounts in respect of such Certificates.
Covenants	The Purchase Undertaking contains a negative pledge given by SIB and events of default that apply to SIB, see *Summary of the Principal Transaction Documents*.
Role of the Delegate	Pursuant to the Declaration of Trust, the Delegate has agreed to undertake certain administrative functions in respect of the Certificates and the Transaction Documents including the delivery of an exercise notice to the Obligor in accordance with the Purchase Undertaking. In addition, the Trustee has irrevocably undertaken , on the occurrence of a Dissolution Event or Potential Dissolution Event to 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 Declaration of Trust. In particular, the Delegate shall be entitled to take enforcement action in the name of the Trustee against the Obligor or the Managing Agent.
Purchase by SIB	In accordance with Condition 9 (*Purchase of Certificates by SIB*), SIB may at any time purchase Certificates at any price in the open market or otherwise. Where SIB has purchased Certificates and wishes to cancel those Certificates (such Certificates, the **Purchased Certificates**), SIB may deliver a

cancellation notice (a **Cancellation Notice**) to the Trustee pursuant to the Sale Undertaking obliging the Trustee to cancel the Purchased Certificates and, as consideration for such cancellation, transfer to SIB a proportionate share of the Sukuk Ijara Assets and Investments with a Value equal to the face amount of such Purchased Certificates.

Form and Delivery of the Certificates	The Certificates will be issued in registered global form only. The Certificates will be represented on issue by beneficial interests in the Global Certificate which will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Definitive Certificates evidencing holdings of Certificates will be issued in exchange for interests in the Global Certificate only in the limited circumstances described under *Global Certificate*.
Clearance and Settlement	Holders of the Certificates must hold their interest in the Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg, as the case may be. 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 Amounts of the Certificates	The Certificates will be issued in minimum face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Status of the Certificates	Each Certificate represents an undivided beneficial ownership interest in the Trust Assets, subject to the terms of the Transaction Documents and the Conditions, and will rank *pari passu*, without any preference, with the other Certificates.
Transaction Account	The Principal Paying Agent will maintain and operate a U.S. dollar account opened in the name of the Trustee (the **Transaction Account**). Payments to the Trustee by the Managing Agent and the Obligor under the Management Agreement and the Purchase Undertaking or the Sale Undertaking, as the case may be, will be credited to the Transaction Account. Periodic Distribution Amounts and the Dissolution Amount will be paid to holders of the Certificates from funds standing to the credit of the Transaction Account in accordance with the order of priority described under *Priority of Distributions* below.
Priority of Distributions	On each Periodic Distribution Date and on any Dissolution Date, the Principal Paying Agent shall apply the monies standing to the credit of the Transaction Account in the following order of priority: (a) first, (to the extent not previously paid) to pay the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate; (b) second, (to the extent not previously paid) to pay the Trustee in respect of all amounts owing to it under the Transaction Documents in its capacity as Trustee;

(c) third, only if payment is due on a Periodic Distribution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and *pro rata* of all Periodic Distribution Amounts due but unpaid;

(d) fourth, only if such payment is on a Dissolution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and *pro rata* of the Dissolution Amount;

(e) fifth, only if such payment is on a Dissolution Date, to pay the Managing Agent any actual costs, expenses, losses and taxes incurred by the Managing Agent on behalf of the Trustee pursuant to the Management Agreement; and

(f) sixth, only if such payment is on a Dissolution Date, in payment of the surplus (if any) to the Managing Agent as incentive fee for acting as Managing Agent.

Limited Recourse

Each Certificate represents an undivided beneficial ownership interest in the 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 Trust Assets. Certificateholders have no recourse to the Ijara Assets, the Investments, the Trustee (other than the Trust Assets), the Delegate, the Seller, the Obligor or the Managing Agent (to the extent that each of them fulfils all of its obligations under the Transaction Documents to which it is a party) 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.

Withholding Tax

All payments by the Trustee under the Certificates are to be made without withholding or deduction for or on account of Cayman Islands taxes, unless the withholding or deduction of the taxes is required by law. In such event, subject to certain enumerated exceptions, the Trustee, failing which, SIB will be required pursuant to the relevant Transaction Documents to pay to the Trustee such additional amounts as may be necessary to ensure that the full amount which otherwise would have been due and payable under the Certificates is received by the Certificateholders. All payments by SIB under the Transaction Documents are to be made without withholding or deduction for or on account of any taxes in the United Arab Emirates, unless the withholding or deduction of the taxes is required by law. In such event, the relevant payer will be required pursuant to the Purchase Undertaking or Management Agreement, as the case may be, to pay to the Trustee such additional amounts as may be necessary to ensure that the Trustee will receive the full amount which otherwise would have been due and payable.

Costs Undertaking

SIB will execute a Costs Undertaking pursuant to which it shall agree to reimburse, among others, the Trustee, the Trustee, the Delegate and the Agents for certain expenses

	incurred by them and to indemnify such parties in respect of certain liabilities incurred by them.
Use of Proceeds	The proceeds of the issue of the Certificates will be paid by the Trustee on the Closing Date to the Seller as the purchase price for the sale of the Ijara Assets.
Listing	Application has been made to the UK Listing Authority for the Certificates to be admitted to the Official List and to the London Stock Exchange for such Certificates to be admitted to trading on the London Stock Exchange's regulated market.
Rating	The Certificates are expected to be assigned a rating of BBB+ by Fitch, Inc. and Fitch Rating Ltd and BBB+ by Standard & Poor's CMS France. A rating is not a recommendation to buy, sell or hold the Certificates (or the beneficial interests therein) and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency. As of the date of this Prospectus, each of the Rating Agencies is established in the European Union and has applied for registration under Regulation (EU) No 1060/2009 (the **CRA Regulation**), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.
Certificateholder Meetings	A summary of the provisions for convening meetings of Certificateholders to consider matters relating to their interests as such is set out in Condition 16 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*).
Tax Considerations	See *Taxation* for a description of certain tax considerations applicable to the Certificates.
Transaction Documents	The Transaction Documents are the Purchase Agreement, the Management Agreement, the Ijara Assets Sale Undertaking, the Purchase Undertaking, the Sale Undertaking, the Declaration of Trust, the Agency Agreement and the Costs Undertaking.
Governing Law	The Transaction Documents will be governed by English law. The Corporate Services Agreement will be governed by the laws of the Cayman Islands.
Waiver of Immunity	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 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

Selling Restrictions	There are restrictions on the distribution of this Prospectus and the offer or sale of Certificates in the United States, the United Kingdom, the Cayman Islands, Malaysia, the Kingdom of Saudi Arabia, Singapore, Hong Kong, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre and such other restrictions as may be required in connection with the offering and sale of the Certificates.

TERMS AND CONDITIONS OF THE CERTIFICATES

The following is the text of the Terms and Conditions of the Certificates which (subject to completion and amendment and save for the text in italics) will be endorsed on each Certificate in definitive form (if issued) and will be attached and (subject to the provisions thereof) apply to the Global Certificate:

Each of the U.S.$400,000,000 Trust Certificates due 2016 (the **Certificates**) represents an undivided beneficial ownership of the Trust Assets held on trust for the holders of such Certificates pursuant to a declaration of trust (the **Declaration of Trust**) dated 25 May 2011 (the **Closing Date**) made between SIB Sukuk Company II Limited (acting in its capacity as both issuer of the Certificates and as trustee for and on behalf of the Certificateholders (the **Trustee**)) and Citicorp Trustee Company Limited (as the delegate of the Trustee, the **Delegate**) and Sharjah Islamic Bank (**SIB**). The Certificates are constituted by the Declaration of Trust.

Payments relating to the Certificates will be made in accordance with a paying agency agreement dated the Closing Date (as amended or supplemented from time to time, the **Agency Agreement**) made between the Trustee, Citibank N.A. London Branch as principal paying agent (in such capacity, the **Principal Paying Agent** and, together with any further or other paying agents appointed from time to time in respect of the Certificates, the **Paying Agents**), as transfer agent (in such capacity, the **Transfer Agent** and, together with any further or other transfer agents appointed from time to time in respect of the Certificates, the **Transfer Agents**), Citigroup Global Markets Deutschland AG as registrar (in such capacity, the **Registrar**) and the Delegate. References to the Principal Paying Agent, the Paying Agents, the Transfer Agents and the Registrar shall include any successor thereto in each case in such capacity.

The statements in these Terms and Conditions (the **Conditions**) include summaries of the detailed provisions of the Declaration of Trust, the Agency Agreement, the Purchase Agreement, the Management Agreement, the Purchase Undertaking, the Sale Undertaking and the Ijara Assets Sale Undertaking. Unless given a defined meaning elsewhere in these Conditions or the context requires otherwise, capitalised terms used in these Conditions shall have the meanings given in Condition 20 (*Definitions and Interpretation*). In addition, (and unless the context requires otherwise) words and expressions defined and rules of construction and interpretation set out in the Declaration of Trust shall, unless defined herein or unless the context otherwise requires, have the same meanings herein. Copies of the Transaction Documents are available for inspection by Certificateholders during normal business hours at the specified offices of the Paying Agents. The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Trustee: to (a) apply the sums paid by it in respect of the Certificates in making payment to SIB as the purchase price for the Ijara Assets (as defined below); and (b) enter into each Transaction Document to which it is a party, subject to the terms and conditions of the Declaration of Trust and these Conditions.

1 FORM, DENOMINATION, TITLE AND DESCRIPTION

1.1 Form and Denomination

The Certificates are issued in registered form in principal amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. A certificate will be issued to each Certificateholder in respect of its registered holding of Certificates. Each certificate will be numbered serially with an identifying number which will be recorded on the relevant certificate and in the register (the **Register**) of Certificateholders which the Trustee will cause to be kept by the Registrar.

Upon issue, the Certificates will be represented by a Global Certificate deposited with a common depositary for, and representing Certificates registered in the name of a nominee of the common depositary for, Euroclear Bank S.A./N.V., as operator of the Euroclear System and Clearstream Banking, société anonyme. The Conditions are modified by certain provisions contained in the Global Certificate. Except in the limited circumstances described in the Global Certificate, owners of interests in Certificates represented by the Global Certificate will not be entitled to receive individual Certificates in respect of their individual holdings of Certificates. The Certificates are not issuable in bearer form.

1.2 Title

The Trustee will cause the Registrar to maintain the Register in respect of the Certificates in accordance with the provisions of the Agency Agreement. Title to the Certificates passes only by registration in the register of Certificateholders kept by the Registrar. The registered holder of any Certificate will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder of any Certificate. In these Conditions, **Certificateholder** and (in relation to a Certificate) **holder** have the definitions given thereto in the Declaration of Trust.

2 TRANSFERS OF CERTIFICATES AND ISSUE OF CERTIFICATES

2.1 Transfers

Subject to Conditions 2.4 (*Transfers after Transfer Record Date*) and 2.5 (*Regulations*) and the terms of the Agency Agreement, a Certificate may be transferred by depositing the certificate issued in respect of that Certificate, with the form of transfer duly completed and signed, at the specified office of any of the Transfer Agents.

Transfers of interests in the Certificates represented by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

2.2 Delivery of New Certificates

Each new definitive certificate to be issued upon transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer provided at the offices of the Transfer Agent, be mailed by uninsured mail at the risk of the holder entitled to the Certificate to the address specified in the form of transfer.

Where some but not all of the principal amount of the Certificates in respect of which a certificate is issued are to be transferred, a new certificate in respect of the principal amount of the Certificates not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original certificate, be mailed by uninsured mail at the risk of the holder of the principal amount of the Certificates not so transferred to the address of such holder appearing on the register of Certificateholders or as specified in the form of transfer.

Except in the limited circumstances described in the Global Certificate, owners of interests in the Certificates will not be entitled to receive physical delivery of Certificates.

For the purposes of this Condition, **business day** shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a certificate is deposited in connection with a transfer is located.

2.3 Formalities Free of Charge

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

2.4 Transfers after Transfer Record Date

No Certificateholder may require the transfer of a Certificate to be registered during the period of seven days ending on the due date for any payment of the Dissolution Amount or any Periodic Distribution Amount on that Certificate.

2.5 Regulations

All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning transfer of Certificates scheduled to the Agency Agreement. The regulations may be changed by the Trustee from time to time with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Certificateholder who requests in writing a copy of the regulations.

3 STATUS AND LIMITED RECOURSE

3.1 Status

The beneficial owners of the Trust Assets are the Certificateholders. Each Certificate evidences an undivided beneficial ownership interest in the Trust Assets and ranks *pari passu*, without any preference, with the other Certificates.

3.2 Limited Recourse

Notwithstanding anything to the contrary contained herein or in any other Transaction Document, no payment of any amount whatsoever shall be made in respect of the Certificates by the Trustee or any agents or delegates thereof except to the extent that funds are available therefor from the Trust Assets.

The proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as provided in the next sentence, the Certificates do not represent an interest in or obligation of any of the Trustee, the Delegate or SIB. Accordingly, Certificateholders, by subscribing for or acquiring the Certificates, acknowledge that they will have no recourse to any of the assets of the Trustee (other than the Trust Assets), the Delegate or SIB (to the extent that each of them fulfils all of its obligations under the Transaction Documents to which it is a party) 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 direct to the Trustee and the Delegate will have direct recourse against SIB to recover such payments

The net proceeds of the realisation of, or enforcement with respect to, the Trust Assets may not be sufficient to make all payments due in respect of the Certificates. If, following distribution of such proceeds, there remains a shortfall in payments due under the Certificates, no Certificateholder will (subject to Condition 13 (*Enforcement and Exercise of Rights*)) have any claim against the Trustee (to the extent that the Trust Assets have been exhausted) or SIB (to the extent that each of them fulfils all of its obligations under the relevant Transaction Documents to which it is a party), or against the Delegate, the Agents or any of their affiliates or recourse to any of their assets in respect of such shortfall and any unsatisfied claims of Certificateholders shall be extinguished. In addition, no Certificateholder will be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding up or receivership of the Trustee as a consequence of such shortfall or otherwise.

4 TRUST

4.1 Summary of the Trust

The Trustee will act as trustee for and on behalf of Certificateholders pursuant to the Declaration of Trust.

The Trustee will enter into a purchase agreement (the **Purchase Agreement**) to be dated the Closing Date with SIB (in its capacity as seller). Pursuant to the Purchase Agreement, SIB will sell a portfolio of Ijara Assets to the Trustee.

The Trustee will enter into a management agreement (the **Management Agreement**) to be dated the Closing Date with SIB (in such capacity, the **Managing Agent**). Pursuant to the Management Agreement, the Managing Agent will manage the Sukuk Ijara Assets.

Principal amounts received in respect of the Ijara Assets will be reinvested by the Managing Agent on behalf of the Trustee either:

(a) by purchasing additional Ijara Assets from SIB pursuant to the sale undertaking (the **Ijara Assets Sale Undertaking**) dated the Closing Date and granted to the Trustee by SIB; or

(b) to the extent that SIB does not have sufficient additional Ijara Assets at its disposal for sale to the Trustee, by investing in *Sharia'a* compliant investments (**Investments**) as determined by the Managing Agent in its absolute discretion.

Profit received in respect of the Sukuk Ijara Assets and the Investments will be applied by the Trustee to make Periodic Distributions on the relevant Periodic Distribution Dates.

The Managing Agent may, in certain circumstances, provide a *Sharia'a* compliant liquidity facility to the Trustee.

Pursuant to the purchase undertaking (the **Purchase Undertaking**) dated on the Closing Date granted by SIB as obligor (the **Obligor**) in favour of the Trustee, the Obligor shall undertake to purchase from the Trustee on the relevant Exercise Date the Sukuk Ijara Assets together with all of the Trustee's rights, title, interests, ownership, benefits and entitlements in, to and under such Sukuk Ijara Assets on such Exercise Date at the Exercise Price. On a Scheduled Dissolution Date or Dissolution Event Date, the Obligor shall, following the issue of a notice under the Purchase Undertaking from the Trustee (or the Delegate on its behalf), which the Trustee (or the Delegate on its behalf) shall serve on the Obligor, purchase the Sukuk Ijara Assets together with all of the Trustee's rights, title, interests, ownership, benefits and entitlements in, to and under such Sukuk Ijara Assets on the Scheduled Dissolution Date or Dissolution Event Date at the Exercise Price.

On the Closing Date, the Trustee shall execute a sale undertaking (the **Sale Undertaking**) in favour of SIB. Pursuant to the Sale Undertaking, subject to the Trustee being entitled to redeem the Certificates early pursuant to Condition 6.2.2 (*Dissolution for Taxation Reasons*), SIB may, by exercising its option under the Sale Undertaking and serving notice on the Trustee no less than 30 days and no more than 60 days prior to relevant Tax Dissolution Date oblige the Trustee to convey, sell and transfer to SIB the Sukuk Ijara Assets together with all of the Trustee's rights, title, interests, ownership, benefits and entitlements in, to and under such Sukuk Ijara Assets on the Tax Dissolution Date at the Exercise Price.

The Managing Agent has in the Management Agreement irrevocably and unconditionally undertaken to the Trustee that it shall, on the Business Day prior to the Dissolution Date, liquidate the Investments and pay an amount equal to the aggregate amount invested by the Managing Agent in such Investments together with all return generated by and received in respect of such Investments directly into the Transaction Account (as defined below).

The Trustee has established a transaction account (the **Transaction Account**) in its name with the Principal Paying Agent into which the Managing Agent, the Obligor and SIB will deposit all amounts due to the Trustee under the Management Agreement and the Purchase Undertaking or the Sale Undertaking, as the case may be.

Pursuant to the Declaration of Trust, the Trustee as Trustee will declare a trust (the **Trust**) for the benefit of the Certificateholders over all of its rights, title, interest and benefit, present and future, in, to and under the Ijara Assets owned by the Trustee from time to time, the Investments and each of the Transaction Documents (excluding the representations given to the Trustee by the Obligor, SIB or the Managing Agent pursuant to any of the Transaction Documents) and all moneys, which may now be, or hereafter from time to time are, standing to the credit of the Transaction Account and all proceeds of the foregoing (together, the **Trust Assets**).

The Purchase Agreement, the Management Agreement, the Purchase Undertaking, the Sale Undertaking, the Ijara Assets Sale Undertaking, the Declaration of Trust, the Agency Agreement, the Costs Undertaking, the Certificates and any other agreements and documents designated as such by the Trustee and SIB are collectively referred to as the **Transaction Documents**.

4.2 Application of Proceeds from Trust Assets

Pursuant to the Declaration of Trust, the Trustee as Trustee holds the Trust Assets for and on behalf of the Certificateholders. On each Periodic Distribution Date and on the Dissolution Date, the Trustee shall apply the moneys standing to the credit of the Transaction Account in the following order of priority:

(a) first, (to the extent not previously paid) to pay the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate;

(b) second, (to the extent not previously paid) to pay the Trustee in respect of all amounts owing to it under the Transaction Documents in its capacity as Trustee;

(c) third, only if payment is due on a Periodic Distribution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and *pro rata* of all Periodic Distribution Amounts due but unpaid;

(d) fourth, only if such payment is on a Dissolution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and *pro rata* of the Dissolution Amount;

(e) fifth, only if such payment is on a Dissolution Date, to pay the Managing Agent any actual costs, expenses, losses and taxes incurred by the Managing Agent on behalf of the Trustee pursuant to the Management Agreement; and

(f) sixth, only if such payment is on a Dissolution Date, in payment of the surplus (if any) to the Managing Agent as incentive fee for acting as Managing Agent.

5 PERIODIC DISTRIBUTIONS

5.1 Periodic Distribution Amounts and Periodic Distribution Dates

A distribution amount, representing a defined share of the profit in respect of the Trust Assets derived from the amounts transferred to the Transaction Account, will accrue and be payable on the Certificates and be distributed by the Trustee in accordance with these Conditions.

Subject to Condition 4.2 (*Application of Proceeds from Trust Assets*) and Condition 8 (*Payment*) below, the distribution payable in respect of the Certificates for any Return Accumulation Period shall be the Periodic Distribution Amount and will be made by the Trustee in respect of the Certificates in arrear on each Periodic Distribution Date. The Periodic Distribution Amount payable on any Periodic Distribution Date shall be distributed to each Certificateholder *pro rata* (in an amount calculated by multiplying the Periodic Distribution Amount by a fraction of which the numerator is the principal amount of the relevant Certificateholder's Certificates and the denominator is the Aggregate Face Amount on the relevant Periodic Distribution Date, and rounding the resultant figure to the nearest U.S.$0.01, U.S.$0.005 being rounded upwards). The distribution amount payable in respect of each U.S.$1,000 in principal amount of Certificates shall be U.S.$23.575 on each Periodic Distribution Date.

If a distribution is required to be paid in respect of a Certificate on any other date, the amount of such distribution shall be calculated by applying the Accrual Rate to the principal amount of such Certificate, multiplying the product by the Day Count Fraction and rounding the resultant figure to the nearest U.S.$0.01, U.S.$0.005 being rounded upwards.

5.2 Notifications

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Principal Paying Agent on behalf of the Trustee will (in the absence of manifest error) be binding on the Trustee, the Agents and the Certificateholders.

5.3 Cessation of Accrual

No further amounts will be payable on any Certificate from and including its due date for redemption, unless default is made in any payment of the Dissolution Amount in which case the Trust will not be terminated and Periodic Distributions Amounts will continue to accrue in respect of the outstanding Certificates in the manner provided in this Condition 5.

6 REDEMPTION AND DISSOLUTION OF TRUST

6.1 Scheduled Dissolution

Unless previously redeemed in full and the Trust dissolved after such redemption, the Certificates shall be redeemed in full by the Trustee on 25 May 2016 (the **Scheduled Dissolution Date**) in cash for an amount equal to the Dissolution Amount as of such date. Upon payment in full of the Dissolution Amount to the Certificateholders, the Trust shall be dissolved, and the Certificates shall cease to represent Trust Assets and no further amounts shall be payable in respect thereof.

6.2 Early Dissolution

6.2.1 *Dissolution following the occurrence of a Dissolution Event*

Following the occurrence of a Dissolution Event, the Certificates may, subject to Condition 12 (*Dissolution Events*), be redeemed in full on the Dissolution Event Date in cash at an amount equal to the Dissolution Amount as of such date. Upon payment in full of the Dissolution Amount to the Certificateholders, the Trust shall be dissolved, and the Certificates shall cease to represent Trust Assets and no further amounts shall be payable in respect thereof.

6.2.2 *Dissolution for Taxation Reasons*

The Certificates may be redeemed by the Trustee in whole, but not in part, and in consequence the Trust dissolved in full, at any time (the date of any such termination, the **Tax Dissolution Date**), on giving not less than 30 nor more than 60 days' notice to the Delegate and the Certificateholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable), at the Dissolution Amount, if:

(a) (i) the Trustee has or will become obliged to pay additional amounts pursuant to Condition 10 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of any Relevant Jurisdiction, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 23 May 2011; and (ii) such obligation cannot be avoided by the Trustee taking reasonable measures available to it; or

(b) (i) the Trustee has received notice from either the Obligor or the Managing Agent that the Obligor or, as the case may be, the Managing Agent has or will become obliged to pay any additional amounts pursuant to the terms of the Purchase Undertaking, the Sale Undertaking or, as the case may be, the Management Agreement as a result of any change in, or amendment to, the laws or regulations of any Relevant Jurisdiction, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 23 May 2011; and (ii) such obligation cannot be avoided by the Obligor or, as the case may be, the Managing Agent taking reasonable measures available to it,

provided, however, that no such notice of dissolution shall be given unless an Exercise Notice has been received by the Trustee under the Sale Undertaking and no such notice of dissolution 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) the Managing Agent or Obligor would be obliged to pay such additional amounts if a payment to the Trustee under the Management Agreement, Purchase Undertaking or Sale Undertaking was then due.

Prior to the publication of any notice of dissolution pursuant to this paragraph, the Trustee shall deliver to the Delegate: (i) a certificate signed by two directors of the Trustee (in the case of Condition 6.2.2(a)), or the Obligor or, as the case may be, the Managing Agent (in the case of Condition 6.2.2(b)) which shall be binding on the Certificateholders stating that the obligation referred to in (a) or (b) above cannot be avoided by the Trustee or, as the case may be, the Obligor or the Managing Agent (having taken reasonable measures available to it); and (ii) an opinion of independent legal or tax advisors of recognised international standing to the effect that such change or amendment has occurred (irrespective of whether such amendment or change is then effective). The Delegate shall (without any investigation required of it) accept any such certificate and opinion as sufficient evidence thereof in which event it shall be conclusive and binding on the Certificateholders.

Following satisfaction of the conditions referred in this Condition 6.2.2, the Certificates shall be redeemed in full by the Trustee on the Tax Dissolution Date in cash for an amount equal to the Dissolution Amount as of such date. Upon payment in full of the Dissolution Amount to the Certificateholders, the Trust shall be dissolved, and the Certificates shall cease to represent Trust Assets and no further amounts shall be payable in respect thereof

6.3 No other Dissolution

The Trustee shall not be entitled to redeem the Certificates, and the Trustee shall not be entitled to dissolve the Trust otherwise than as provided in this Condition 6 and Condition 12 (*Dissolution Events*).

6.4 Distribution of Dissolution Amounts and Return Accumulation Periods

The Dissolution Amount shall be distributed on the Scheduled Dissolution Date, the Dissolution Event Date or the Tax Dissolution Date (as the case may be) *pro rata* amongst the Certificates. The amount payable in respect of any Certificate shall be determined by multiplying the Dissolution Amount by a fraction of which the numerator is the principal amount of the relevant Certificate and the denominator is the Aggregate Face Amount on the Scheduled Dissolution Date, the Dissolution Event Date or the Tax Dissolution Date (as the case may be), and rounding the resultant figure to the nearest U.S.$0.01, U.S.$0.005 being rounded upwards.

In connection with any Dissolution Event Date or Tax Dissolution Date, the Return Accumulation Period shall be adjusted to be the period from, and including, the immediately preceding Periodic Distribution Date (or the Closing Date, as the case may be) to, but excluding, the Dissolution Event Date or Tax Dissolution Date (as the case may be), and the corresponding Periodic Distribution Amount shall be adjusted accordingly.

6.5 Cancellations

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

7 COVENANTS

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

(a) incur any indebtedness in respect of borrowed money whatsoever, or give any guarantee in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) or any other certificates except, in all cases, as contemplated in the Transaction Documents;

(b) secure any of its present or future indebtedness for borrowed money by any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law);

(c) sell, transfer, assign, participate, exchange, 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 title to any of the Trust Assets or any interest therein except pursuant to any Transaction Document;

(d) use the proceeds of the issue of the Certificates for any purpose other than stated in the Transaction Documents;

(e) amend or agree to any amendment of any of the Transaction Documents to which it is a party (other than in accordance with the terms thereof) or to its constitutional documents;

(f) act as trustee in respect of any trust other than the Trust, or in respect of any parties other than the Certificateholders and/or act as agent for any trust arrangement (other than the Trust);

(g) have any subsidiaries or employees;

(h) redeem any of its shares or pay any dividend or make any other distribution to its shareholders;

(i) 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 proceedings with respect to it; or

(j) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents and any subscription agreement connected to the issue of the Certificates to which it is a party or engage in any business or activity other than:

    (i) as provided for or permitted in the Transaction Documents; and

    (ii) such other matters which are incidental thereto.

8 PAYMENT

8.1 Payments in Respect of Certificates

Subject to Condition 8.2, payment of the Dissolution Amount and any Periodic Distribution Amount will be made by the Principal Paying Agent in U.S. dollars by wire transfer in same-day funds to the registered account of the Certificateholder or by U.S. dollar cheque drawn on a bank that processes payments in U.S. dollars mailed to the registered address of the Certificateholder if it does not have a registered account. Payments of the Dissolution Amount will only be made against presentation and surrender of the relevant Certificate at the specified office of any of the Paying Agents. The Dissolution Amount and each Periodic Distribution Amount will be paid to the holder shown on the Register (i) where in global form, 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 due date for the payment of such Dissolution Amount or relevant Periodic Distribution Amount (as the case may be) and (ii) where in definitive form, at the close of business of the seventh day before the due date on which such Dissolution Amount or relevant Periodic Distribution Amount (as the case may be) is paid (the **record date**).

For the purposes of this Condition 8, a Certificateholder's **registered account** means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the relevant record date, and a Certificateholder's registered address means its address appearing on the Register at that time.

Distributions of amounts with respect to book-entry interests in the Certificates held through Euroclear or Clearstream, Luxembourg will be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system's rules and procedures.

8.2 Payments subject to applicable laws

Payments in respect of Certificates are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*).

8.3 Payment only on a Payment Business Day

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

Certificateholders will not be entitled to any Periodic Distribution Amount and/or Dissolution Amount or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the relevant Certificateholder is late in surrendering its Certificate (if required to do so) or, if a cheque mailed in accordance with this Condition arrives after the due date for payment.

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

8.4 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. 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 that: (a) it will at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity); (b) it will at all times maintain a Paying Agent (which may be the Principal Paying Agent) having its specified office in London for so long as the Certificates are listed on the Official List of the UK Listing Authority; and (c) there will at all times be a Paying Agent (which may be the Principal Paying Agent) located in an EU Member State that is not obliged to withhold or deduct tax 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, any such Directive. Notice of any termination or appointment and of any changes in specified offices will be given to Certificateholders promptly by the Trustee in accordance with Condition 15 (*Notices*).

9 PURCHASE OF CERTIFICATES BY SIB

SIB may at any time purchase Certificates at any price in the open market or otherwise. Following any purchase of Certificates by SIB pursuant to this Condition 9, SIB may at its option hold or resell such Certificates (subject to such Certificates being deemed not to remain outstanding for certain purposes as provided under the Declaration of Trust if held).

SIB may request the Trustee to cancel any Certificates purchased pursuant to this Condition 9 and the Trustee shall forthwith cancel such Certificates to which the request relates. Such Certificates cannot be reissued or resold.

10 TAXATION

All payments in respect of the Certificates shall be made in full without withholding or deduction for, or on account of, any present or future taxes, levies, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of a Relevant Jurisdiction and all charges, penalties or similar liabilities with respect thereto (**Taxes**), unless the withholding or deduction of such Taxes is required by law. In such event, the Trustee shall pay additional amounts so that the full amount which otherwise would have been due and payable under the Certificates (if no such withholding or deduction had been made or required to be made) is received by parties entitled thereto, except that no such additional amount shall be payable by the Trustee in relation to any payment in respect of any Certificate:

(a) presented for payment by or on behalf of a holder who is liable for such Taxes in respect of such Certificate by reason of having some connection with any Relevant Jurisdiction other than the mere holding of such Certificate; or

(b) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day; or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in the European Council Directive 2003/48/EC; or

(d) presented for payment by or on behalf of a Certificateholder who would be able to avoid such withholding or deduction by presenting the relevant Certificate to another Paying Agent in a Member State of the European Union.

In these Conditions, references to the **Dissolution Amount** or any **Periodic Distribution Amount** payable in respect of a Certificate shall be deemed to include any additional amounts payable under this Condition 10.

The Purchase Undertaking, the Sale Undertaking and the Management Agreement each provides that payments thereunder by the Obligor and the Managing Agent respectively shall be made 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 by the Obligor and the Managing Agent respectively of additional amounts so that the full amount which would otherwise have been due and payable is received by the Trustee.

11 PRESCRIPTION

Claims in respect of amounts due in respect of the Certificates will become prescribed unless made within periods of 10 years (in the case of Dissolution Amounts) and five years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect of the Certificates, subject to the provisions of Condition 8 (*Payment*).

12 DISSOLUTION EVENTS

If any of the following events occurs and is continuing then the Delegate at its discretion may, and if so directed in writing by the holders of at least 25 per cent. of the Aggregate Face Amount of the Certificates outstanding or if so directed by an Extraordinary Resolution of the holders of the Certificates, the Delegate shall (subject, in the case of the happening of any of the events mentioned in paragraph (b), to the Delegate having certified in writing that the happening of such event is in its opinion materially prejudicial to the interests of the Certificateholders and, in all cases to the Delegate having been indemnified and/or secured and/or pre-funded to its satisfaction) give notice to the Trustee that the Certificates are to be redeemed at the Dissolution Amount on the date specified in such notice (the **Dissolution Event Date**) and that the Trust is to be dissolved on the day after the last outstanding Certificate has been paid in full:

(a) a default is made in the payment of any Periodic Distribution Amount or Dissolution Amount due in respect of any Certificate and such default continues for a period of 7 days from the due date of payment in the case of any Periodic Distribution Amount or 14 days from the due date of payment in the case of the Dissolution Amount; or

(b) the Trustee defaults in the performance or observance of any of its other obligations under or in respect of the Transaction Documents to which it is a party and (except in any case where the failure is incapable of remedy) such default remains unremedied for 28 days after written notice thereof, addressed to the Trustee by the Delegate, has been delivered to the Trustee; or

(c) an Event of Default occurs under the Purchase Undertaking; or

(d) the Trustee repudiates any Transaction Document to which it is a party 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 for the Trustee (by way of insolvency or otherwise) to perform or comply with any of its obligations under the Transaction Documents to which it is a 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; (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); (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 or any indebtedness given by it; (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);

(g) an order or decree is made or an effective resolution is passed for the winding up, liquidation or termination 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) or (g).

In these Conditions, **Dissolution Event** means the occurrence and continuation of any one of the circumstances described in this Condition 12 but (in the case of any of the events described paragraph (b)) only if such event is, pursuant to the provisions of Condition 12, certified by the Delegate to be materially prejudicial to the interests of the Certificateholders.

Upon the occurrence of a Potential Dissolution Event and/or a Dissolution Event the Delegate shall, if it has actual knowledge of such Potential Dissolution Event and/or Dissolution Event, give notice of the occurrence of such Potential Dissolution Event and/or Dissolution Event to the holders of Certificates in accordance with Condition 15 (*Notices*) with, in the case of a Dissolution Event, a request to such holders to direct the Delegate in writing or by Extraordinary Resolution if they wish the Trust to be terminated.

Upon payment in full of the Dissolution Amount, the Certificates shall cease to represent the Trust Assets 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 5 (*Periodic Distributions*) and Condition 6 (*Redemption and Dissolution of Trust*)) notwithstanding that the Trustee has at the relevant time insufficient funds or Trust Assets to pay such amounts.

13 ENFORCEMENT AND EXERCISE OF RIGHTS

13.1 Upon the occurrence of a Dissolution Event, to the extent that the amounts payable in respect of the Certificates have not been paid in full, the Delegate shall (having been delegated such right by the Trustee pursuant to the Declaration of Trust) take one or more of the following steps:

(a) enforce the provisions of the Purchase Undertaking against the Obligor;

(b) enforce the provisions of the Management Agreement against the Managing Agent; or

(c) take such other steps as the Delegate may consider necessary to recover amounts due and/or deliverable to the Certificateholders.

Notwithstanding the foregoing, the Trustee 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 the Obligor and/or the Managing Agent to enforce their respective obligations under the Transaction Documents, the Conditions and the Certificates.

13.2 The Delegate shall not be bound to take any action in relation to the Trust Assets or any Dissolution Event or to take any proceedings or any other steps under these Conditions or the Transaction Documents unless required to do so (a) by an Extraordinary Resolution or (b) in writing by Certificateholders holding at least 25 per cent. in aggregate principal amount of the Certificates then outstanding, and in each case then only if it shall be indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities to which it may render itself liable or which it may incur by so doing.

13.3 No Certificateholder shall be entitled to proceed directly against the Trustee or SIB unless: (a) 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 (b) the relevant Certificateholder (or such Certificateholders together with any other Certificateholders who propose to proceed directly against any of the Trustee or SIB) holds at least 25 per cent. of the then aggregate principal amount of the Certificates then outstanding. Under no circumstances shall the Delegate or any Certificateholders have any right to cause the sale or other disposition of any of the Trust Assets except pursuant to the Transaction Documents or have any other recourse against the Sukuk Ijara Assets, except the right to receive distributions derived from the Sukuk Ijara Assets in accordance with the Conditions, and the sole right of the Trustee (or the Delegate on its behalf) and the Certificateholders against the Sukuk Ijara Assets, the Trustee and SIB shall be to enforce their respective obligations under the Transaction Documents to which they are a party and to enforce or realise the Trust Assets.

13.4 Conditions 13.1, 13.2 and 13.3 are subject to this Condition 13.4. After enforcing and distributing or realising the Trust Assets and distributing the net proceeds of the Trust Assets in accordance with Condition 4.2 (*Application of Proceeds from Trust Assets*), the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any steps against the Trustee to recover any sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Trustee.

14 REPLACEMENT OF CERTIFICATES

Should any Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified offices of the Registrar 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 may reasonably require. Mutilated or defaced Certificates must be surrendered or an indemnity given before replacements will be issued.

15 NOTICES

All notices to the Certificateholders will be valid if:

(a) published in a daily newspaper having general circulation in London (which is expected to be the Financial Times) approved by the Delegate; or

(b) mailed to them by first class pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by air mail at their respective addresses in the Register.

In addition, 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 seventh 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.

16 MEETINGS OF CERTIFICATEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

16.1 The Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of these Conditions or the provisions of the Declaration of Trust. The quorum at any meeting for passing an Extraordinary Resolution will be two or more Certificateholders, proxies or representatives holding or representing more than half in aggregate principal amount of the Certificates for the time being outstanding, or at any meeting that has been adjourned two or more Certificateholders, proxies or representatives present, whatever the principal amount of the Certificates held or represented by him or them. Except that the quorum of any meeting the business of which includes a proposal to:

(a) reduce the amount or alter the currency of payment of the Periodic Distribution Amount, the Dissolution Amount or any other amount payable by or on behalf of the Trustee under the Conditions;

(b) to change the Scheduled Dissolution Date or any Periodic Distribution Date

(c) to change the quorum required at any Meeting or the majority required to pass an Extraordinary Resolution

(d) amend clauses 6 (*Negative Pledge*) or clause 7 (*Events of Default*) of the Purchase Undertaking,

shall be two or more Certificateholders, proxies or representatives holding or representing not less than 75 per cent. of the outstanding face amount of the Certificates, or at any meeting that has been adjourned two or more Certificateholders, proxies or representatives holding or representing not less than 25 per cent. of the outstanding face amount of the Certificates. To be passed, an Extraordinary Resolution requires a majority in favour consisting of not less than three-quarters of the persons voting on a show of hands or, if a poll is demanded, a majority of not less that three-quarters of the votes cast on such poll. An Extraordinary Resolution duly passed at any meeting of Certificateholders will be binding on all holders of the Certificates, whether or not they are present at the meeting and whether or not voting. In addition, a resolution in writing signed by or on behalf of representatives holding or representing more than ninety per cent. (90 per cent.) in aggregate of the principal amount of the Certificates will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of the relevant Certificateholders.

16.2 The Delegate may without the consent or sanction of the Certificateholders:

(a) agree to any modification of any of the provisions of these Conditions, the Declaration of Trust or any other Transaction Document which, in the opinion of the Delegate is: (i) of a formal, minor or technical nature; or (ii) to correct a manifest error; or (iii) is proper to make and is not materially prejudicial to the interests of the outstanding Certificateholders and in each case is not in respect of a Reserved Matter (as defined in Schedule 3 (Provisions for meetings of Certificateholders));

(b) agree to waive or to authorise any breach or proposed breach of, any of the provisions of these Conditions, the Declaration of Trust or any other Transaction Document and/or determine that any Dissolution Event or Potential Dissolution Event shall not be treated as such, if, in the opinion of the Delegate, such waiver, authorisation or determination is not materially prejudicial to the interests of the outstanding Certificateholders provided that such waiver, authorisation or breach is not in respect of a Reserved Matter or in contravention of any express direction by an Extraordinary Resolution or a request in writing made by the holders of not less than 25 per cent in Aggregate Face Amount of Certificates then outstanding.

16.3 In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee and/or the Delegate on its behalf shall have regard to the general interests of 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 or groups of 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 subdivision thereof and the Trustee and/or Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim, from the Trustee and/or Delegate or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders except to the extent provided in Condition 10 (*Taxation*).

16.4 Any modification, abrogation, waiver, authorisation, determination or substitution shall be binding on Certificateholders and any modification, abrogation, waiver, authorisation, determination or substitution shall be notified by the Trustee to Certificateholders as soon as practicable thereafter in accordance with Condition 15 (*Notices*).

17 INDEMNIFICATION AND LIABILITY OF THE TRUSTEE AND DELEGATE

17.1 The Declaration of Trust contains provisions for the indemnification of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction. 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 13.2 (*Enforcement and Exercise of Rights*).

17.2 The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of SIB under the Transaction Documents to which it is a party and shall not under any circumstances have any liability or be obliged to account to Certificateholders in respect of any payments which should have been paid by SIB but are not so paid and shall not in any circumstances have any liability arising from the Trust Assets other than as expressly provided in these Conditions or in the Declaration of Trust. In connection with the exercise by it of any powers, authorities, discretions or functions or the making of any determinations in each case pursuant to the Declaration of Trust, the Delegate is acting solely as agent of the Trustee and not as agent of Certificateholders.

17.3 Each of the Trustee and the Delegate: (a) shall have no liability in respect of any loss or theft of the Trust Assets or any cash; (b) are not obliged to insure the Trust Assets or any cash; and (c) shall have no liability in respect of 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 of the Trustee or the Delegate, as the case may be.

18 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.

19 GOVERNING LAW AND SUBMISSION TO JURISDICTION

19.1 The Transaction Documents and any non contractual obligations arising out of or in connection with them are governed by, and will be construed in accordance with, English law.

19.2 Subject to Condition 19.3, any dispute arising out of, related to, or having any connection with the Declaration of Trust, the Certificates and these Conditions (including any dispute regarding the existence, validity, interpretation, performance, breach or termination of the Declaration of Trust, 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 in accordance with the Arbitration Rules of the London Court of International Arbitration (**LCIA**) (the **Rules**), which Rules (as amended from time to time) are incorporated by reference into this Condition 19.2.

For these purposes:

(a) the place of arbitration shall be London;

(b) there shall be three arbitrators each of whom shall have no connection with any party hereto and shall be an attorney experienced in international securities transactions;

(c) the language of the arbitration shall be English; and

(d) any requirement in the Rules to take account of the nationality of a person considered for appointment as an arbitrator shall be disapplied and a person shall be nominated or appointed as an arbitrator (including as Chairman) regardless of his nationality.

19.3 Notwithstanding Condition 19.2 above, the Delegate or (only where permitted to take action in accordance with the terms of the Declaration of Trust) any Certificateholder may, in the alternative, and at its sole discretion, by notice in writing to the Trustee:

(a) within 28 days of service of a Request for Arbitration (as defined in the Rules); or

(b) in the event no arbitration is commenced,

require that a Dispute be heard by a court of law. If such notice is given, the Dispute to which such notice refers shall be determined in accordance with Condition 19.4 and any arbitration commenced under Condition 19.2 in respect of that Dispute will be terminated. 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.

19.4 If any notice to terminate 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 the 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.

19.5 In the event that a notice pursuant to Condition 19.3 is issued, the following provisions shall apply:

(a) subject to paragraph (c) below, the courts of England shall have exclusive jurisdiction to settle any Dispute;

(b) the Trustee and SIB have agreed that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, irrevocably submit to the jurisdiction of such courts and will not argue to the contrary; and

(c) this Condition 19.5 is for the benefit of the Delegate and the Certificateholders only. As a result, and notwithstanding paragraph (a) above, the Delegate and the Certificateholders may take proceedings relating to a Dispute (**Proceedings**) in any other courts with jurisdiction. To the extent allowed by law, the Delegate and the Certificateholders may take concurrent Proceedings in any number of jurisdictions

19.6 The Trustee has in the Declaration of Trust irrevocably and unconditionally appointed an agent for service of process in England in respect of any Proceedings and has undertaken that in the event of such agent ceasing so to act it will appoint such other person as the Delegate may approve as its agent for that purpose. In the event that no such replacement agent for service of process in England has been appointed by the Trustee within 14 days, the Delegate shall have the power to appoint, on behalf of and at the expense of the Trustee, a replacement agent for service of process in England.

20 DEFINITIONS AND INTERPRETATION

In these Conditions:

Accrual Rate means 4.715 per cent.

Agents means any of the Paying Agents, the Registrar or the Transfer Agent appointed by the Trustee pursuant to the Agency Agreement.

Aggregate Face Amount means, at any time, the aggregate principal amount of the outstanding Certificates.

Business Day means a day (other than a Friday) on which commercial banks and foreign exchange markets are open for general business in Sharjah, London and, if a payment in U.S. dollars is required on such day, New York.

Costs Undertaking means the costs undertaking granted by SIB on the Closing Date in favour of, among others, the Delegate and the Trustee.

Day Count Fraction means, in relation to a Return Accumulation Period or any other period in respect of which a payment is due to be made, the number of days (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) in that period, divided by 360.

Dispute shall have the meaning given to such term in Condition 19 (*Governing Law and Submission to Jurisdiction*).

Dissolution Amount means, as of any date, the Aggregate Face Amount of the Certificates then outstanding plus all unpaid accrued Periodic Distribution Amounts as of such date.

Dissolution Date means the Scheduled Dissolution, the Tax Dissolution Date or, as the case may be, the Dissolution Event Date.

Dissolution Event shall have the meaning given to such term in Condition 12 (*Dissolution Events*).

Dissolution Event Date has the meaning given to such term in Condition 12 (*Dissolution Events*).

Event of Default shall have the meaning given to such term in the Purchase Undertaking.

Exercise Date means the date on which the Exercise Price is due pursuant to the terms of the Purchase Undertaking or the Sale Undertaking.

Exercise Price means the price payable by the Obligor to purchase the Ijara Assets under either the Purchase Undertaking or the Sale Undertaking.

Ijara Asset means the underlying asset which is subject to an Ijara Contract (and includes any ancillary rights under such Ijara Contract).

Ijara Assets Sale Undertaking shall have the meaning given to such term in Condition 4.1 (*Summary of the Trust*).

Ijara Contract means, in relation to an Ijara Asset, an ijara contract between SIB and a customer pursuant to which SIB, as lessor, leases the Ijara Asset to the customer, as lessee, and in respect of which regular payments are due from the lessee to SIB.

Investments shall have the meaning given to such term in Condition 4.1 (*Summary of the Trust*).

LCIA shall have the meaning given to such term in Condition 19 (*Governing Law and Submission to Jurisdiction*).

Managing Agent shall have the meaning given to such term in Condition 4.1 (*Summary of the Trust*).

Obligor shall have the meaning given to such term in Condition 4.1 (*Summary of the Trust*).

Payment Business Day means a day on which commercial banks in London and New York are open for general business and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

Periodic Distribution Amount means in respect of each Return Accumulation Period, an amount equal to the product of (a) the Accrual Rate and (b) the Aggregate Face Amount divided by two.

Periodic Distribution Date means the 25th day of May and November, commencing on 25 November 2011 and, subject to Condition 5.3 (*Cessation of Accrual*), including the Scheduled Dissolution Date.

person means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, limited liability company or government or agency, or political subdivision thereof, or other entity.

Potential Dissolution Event means any event which, with the giving of notice, lapse of time or fulfilment of any other applicable condition (or any combination of any of the foregoing) would constitute a Dissolution Event.

Proceedings shall have the meaning given to such term in Condition 19 (*Governing Law and Submission to Jurisdiction*).

Purchase Agreement shall have the meaning given to such term in Condition 4.1 (*Summary of the Trust*).

Purchase Undertaking shall have the meaning given to such term in Condition 4.1 (*Summary of the Trust*).

Register shall have the meaning given to such term in Condition 1.1 (*Form and Denomination*).

Relevant Date means, in respect of any payment in relation to a Certificate, the later of (a) the date on which the payment first becomes due but, and (b) if the full amount payable has not been received by the Principal Paying Agent on or before the due date, the date on which (the full amount having been so received) notice to that effect has been given to the Certificateholders by the Trustee in accordance with Condition 10 (*Taxation*).

Relevant Jurisdiction means the United Arab Emirates and the Cayman Islands or any political subdivision or any authority thereof or therein having power to tax.

Return Accumulation Period means the period from and including the Closing Date to but excluding the first Periodic Distribution Date, and thereafter each successive period from (and including) a Periodic Distribution Date to (but excluding) the next Periodic Distribution Date.

Rules shall have the meaning given to such term in Condition 19 (*Governing Law and Submission to Jurisdiction*).

Sale Undertaking shall have the meaning given to such term in Condition 4.1 (*Summary of the Trust*).

Scheduled Dissolution Date has the meaning given to such term in Condition 6.1 (*Scheduled Dissolution*).

Shortfall Amounts shall have the meaning given to such term in Condition 4.1 (*Summary of the Trust*).

Sukuk Ijara Assets means, on any day, the Ijara Assets purchased by the Trustee pursuant to the Purchase Agreement and each additional Ijara Asset acquired by the Trustee from time to time in accordance with the Transaction Documents but excluding any Ijara Assets that have been transferred to SIB on expiration of the relevant Ijara Contract.

Tax Dissolution Date shall have the meaning given to such term in Condition 6.2.2 (*Dissolution for Taxation Reasons*).

Taxes shall have the meaning given to such term in Condition 10 (*Taxation*).

Transaction Account shall have the meaning given to such term in Condition 4.1 (*Summary of the Trust*).

Transaction Documents shall have the meaning given to such term in Condition 4.1 (*Summary of the Trust*).

Trust shall have the meaning given to such term in Condition 4.1. (*Summary of the Trust*)

Trust Assets shall have the meaning given to such term in Condition 4.1 (*Summary of the Trust*).

U.S.$ and **U.S. dollars** means United States dollars, being the legal currency for the time being of the United States of America.

GLOBAL CERTIFICATE

The Global Certificate contains the following provisions which apply to the Certificates in respect of which it is issued whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Unless otherwise defined, terms defined in the Conditions have the same meaning in paragraphs 1 to 7 below.

1 Holders

For so long as all of the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, the registered holder of the Global Certificate shall, except as ordered by a court of competent jurisdiction or as required by law, be treated as the owner thereof and the expression Holder shall be construed accordingly. Each of the persons (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 aggregate face amount of such Certificates (the **Accountholders**) (in which regard any certificate or other document issued by a clearing system as to the aggregate 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) must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Holder. In addition, holders of beneficial interests in the 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.

2 Cancellation

Cancellation of any Certificate represented by the Global Certificate will be effected by reduction in the aggregate face amount of the Certificates in the Register.

3 Payments

Payments of the Dissolution Amount in respect of Certificates represented by the Global Certificate will be made upon presentation and surrender of the Global Certificate to or to the order of the Registrar or such other Agent as shall have been notified to the Holder for such purpose.

Distributions of amounts with respect to book-entry interests in the Certificates held through Euroclear or Clearstream, Luxembourg will be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system's rules and procedures.

A record of each payment made in respect of the Certificates will be entered into the Register by or on behalf of the Registrar and shall be prima facie evidence that payment has been made.

4 Notices

So long as all the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices may be given by delivery of the relevant notice to those clearing systems for communication to their Accountholders in substitution for notification as required by the Conditions except that, so long as the Certificates are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given on the day on which such notice is delivered to the relevant clearing systems.

5 Registration of Title

The Registrar will not register title to the Certificates in a name other than that of a nominee for the Common Depositary for a period of seven calendar days preceding the due date for any payment of any Periodic Distribution Amount or the Dissolution Amount in respect of the Certificates.

6 Transfers

Transfers of book-entry interests in the Certificates will be effected through the records of Euroclear or Clearstream, Luxembourg and their respective direct and indirect participants in accordance with their respective rules and procedures.

7 Exchange for Definitive Certificates

Interests in the Global Certificate will be exchanged for Certificates in definitive form upon the occurrence of an Exchange Event.

For these purposes, Exchange Event means that (a) the Trustee or Delegate has given notice in accordance with Condition 12 (*Dissolution Events*) that a Dissolution Event has occurred and is continuing or (b) 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 no successor or alternative clearing system satisfactory to the Delegate is available. Upon the occurrence of an Exchange Event, the Trustee will issue definitive Certificates in exchange for the whole of the Global Certificate within 30 days of the occurrence of the relevant Exchange Event upon presentation of the Global Certificate by the person in whose name it is registered in the Register on any day (other than a Saturday or Sunday) on which banks are open for business in the city in which the Registrar has its specified office.

USE OF PROCEEDS

The proceeds of the issue of the Certificates will be paid by the Trustee on the Closing Date to the Seller as the purchase price for the sale of the Ijara Assets identified in the Purchase Agreement.

DESCRIPTION OF THE TRUSTEE

SIB Sukuk Company II Limited (the **Trustee**), an exempted company incorporated in the Cayman Islands with limited liability, was incorporated on 28 March 2011 under the Companies Law (2010 Revision) of the Cayman Islands with company registration number 254075. The registered office of the Trustee is at the offices of MaplesFS Limited, PO Box 1093, Queensgate House, Grand Cayman, KY1-1102 Cayman Islands.

The authorised share capital of the Trustee is US$50,000 divided into 50,000 ordinary shares of US$1.00 each, 250 of which have been issued. All of the issued shares (the **Shares**) are fully-paid and are held by Maples Finance 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 Certificate holders 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 US$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:

Name	Principal Occupation
Carlos Farjallah	Senior Vice President at MaplesFS Limited
Cleveland Stewart	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.

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 Administrator will serve as the general business office of the Trustee. Through the office, and pursuant to the terms of an 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 14 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 Corporate Administrator will be subject to the overview of the Trustee's Board of Directors. The Corporate Administration Agreement may be terminated (other than as stated above) by either the Trustee or the Corporate Administrator giving the other three months written notice.

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

DESCRIPTION OF SHARJAH ISLAMIC BANK PJSC

Overview

Sharjah Islamic Bank PJSC (the **Bank** or **SIB**) was originally incorporated as a commercial bank in 1975 as National Bank of Sharjah, under an Emiri decree issued by H.H. Dr. Sultan Bin Mohammed Al Qassimi, Member of the UAE Supreme Council, and Ruler of Sharjah. The Bank 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 the Bank's shareholders to change the Bank's status from a conventional bank to an Islamic bank, thereby undertaking to perform all of its banking activities in compliance with *Sharia'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, the Bank's name was changed from National Bank of Sharjah to Sharjah Islamic Bank.

During the conversion process, the Bank formed a strategic alliance with Kuwait Finance House (**KFH**), under which KFH acquired a 20 per cent. shareholding in the Bank 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, the Bank has benefited from KFH's product expertise, as well as increasing its funding base.

The Bank is a publicly listed company whose shares are listed on the Abu Dhabi Securities Market**.** As at 31 December 2010, the Bank had 2,425,500,000 shares outstanding held by 3,135 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 2,255,715,000. As at 31 December 2010, the Government and KFH owned 31.3 per cent. and 20 per cent. of the Bank respectively. Other than the Government and KFH, no shareholder held more than 2.9 per cent. of the shares of the Bank as at 31 December 2010.

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

The Bank had total assets of AED 16.67 billion and AED 15.97 billion as at 31 December 2010 and 31 December 2009 respectively. The Bank had shareholders' funds of AED 4.35 billion and AED 4.26 billion for the years ended 31 December 2010 and 2009 respectively. For the purposes of reporting its risk-weighted assets in accordance with Basel II, the Bank had Tier 1 capital of AED 4.13 billion and AED 4.05 billion and lower Tier 2 capital of AED 47.5 million and AED 38.0 million as at 31 December 2010 and 31 December 2009 respectively. The Bank's net profit for the year ended 31 December 2010 was AED 266.41 million as compared to AED 260.14 million for the year ended 31 December 2009.

The Bank 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 *Sharia'a* rules and regulations. As at the date of this Prospectus, SIB has 25 branches in four of the seven emirates, namely Sharjah, Dubai, Abu Dhabi and Fujairah. The Bank was awarded the "*Best Financial Institution*" award by Wachovia Bank between 2007-2010.

General

The Bank has a long term counterparty rating of BBB+ and a short term rating of A-2 (stable outlook) from Standard & Poor's Ratings Services and a rating of BBB+ with a Stable Outlook from Fitch Ratings Ltd.

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

Strategy

The Bank'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, the Bank's primary strategic objectives are to:

(a) maximise value for the Bank's shareholders;

(b) maintain a conservative attitude to risk;

(c) provide exceptional customer service; and

(d) continue to build a strong brand.

The following strategic priorities have therefore been developed to aid 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. The Bank believes that this growth presents significant opportunities and intends to continue to develop effective and innovative *Sharia'a* compliant banking products and services to offer to retail and corporate clients.

Pursue Expansion in the UAE and internationally

The Bank plans to expand its share of the retail and corporate banking market in the UAE, both within and outside of Sharjah. In order to fulfil this growth strategy, the Bank expects to add two additional branches to its retail network by 2012. The Bank 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. The Bank also intends to expand its small and medium business enterprise by 30 per cent. per annum. The Bank expects to achieve this growth through the introduction of new products to appeal to both corporate and retail customers.

The Bank 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. The Bank is targeting a number of trade sectors including manufacturing, pharmaceuticals, oil, contracting and shipping. The Bank believes that it will benefit from increasing inward investment of capital from other areas of the GCC during 2011 as a result of the relative stability of the Sharjah and UAE economies.

Whilst the Bank 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 the Bank seeking to capitalise on its Islamic credentials and expertise. The Qatari market is one such area in which the Bank'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.

Maintain a conservative attitude to risk

As an Islamic institution, the Bank maintains strict *Sharia'a* controls over its business and processes. These rigorous controls have resulted in the Bank 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 the Bank was one of only two banks in the UAE not to have its credit rating downgraded during the recent global financial crisis.

By re-aligning the Bank's risk management function with the Bank's credit division, the Bank 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, the Bank'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 the Bank'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., the Bank believes that it has substantially mitigated many of the liquidity risks that face it.

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

The Bank has maintained a strong capital adequacy ratio of 35 per cent. in accordance with Basel II and has also benefited from low levels of non-performing facilities, with approximately AED 255.5 million (or 2.6 per cent of all facilities) classified as non-performing as at 31 December 2010.

Diversify Revenues through its Subsidiaries and Joint Ventures

As at the date of this Prospectus, the Bank has signed a memorandum of understanding with Corporate Leasing Company Egypt, to establish a joint venture. The Bank expects that the joint venture company will operate in the UAE, offering a broad range of *Sharia'a* compliant leasing facilities to finance the assets required by the business sector to contribute to the UAE's growth projects. This memorandum of understanding reflects the Bank's strategy of diversifying its revenues whilst taking advantage of specific expansion opportunities.

The Bank has also sought to diversify its revenues through the incorporation of subsidiaries. As at the date of this Prospectus, the Bank has three subsidiaries whose businesses include the provision of *Sharia'a* compliant financial services, investment in the Sharjah hospitality industry and the management of real estate assets. Through its acquisition of the Sharjah National Hotel Corporation, the Bank has sought to encourage and support the Sharjah hospitality and tourism industry whilst diversifying its investments and revenues.

Competitive Strengths

The Bank 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 Prospectus, the Government is the Bank's largest shareholder, holding 31.3 per cent. of the Bank's share capital. The Bank 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 the Bank, being accountable for over AED 3 billion, or 32.7 per cent. of the Bank's receivables as at 31 December 2010. Through its strong relationship with the Government, the Bank believes that it will benefit from the forthcoming 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, the Bank believes that its levels of exposure to the Government should be viewed as a strength, reflecting positively on the Bank'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, the Bank therefore has a deep knowledge and understanding of the needs of both conventional and Islamic banking customers. The Bank believes that this knowledge has enabled it to develop its *Sharia'a* compliant banking services in a way that appeals to a broader client base than other Islamic banks.

The Bank's conventional experience has been responsible for the development of many innovative *Sharia'a* compliant banking products that seek to replicate the salient features of their conventional counterparts. The Bank's innovations include prepaid Visa cards and zero per cent. profit finance, both of which were the first *Sharia'a* compliant examples of these products in the UAE. Through innovations such as these, the Bank 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

The Bank has a diversified deposit base that includes retail and corporate customers, government bodies and public sector agencies which, taken together, are regarded by the Bank as a relatively stable and a low cost source of funding. The Bank had AED 10.38 billion of deposits as at 31 December 2010, representing an increase of AED 520 million (5.3 per cent) as compared to 31 December 2009.

Diversified distribution channels and accessibility to customers

The Bank distributes its products through a variety of channels which includes its branch network, ATMs, a direct sales force, a call centre, SMS services and internet banking. As at 31 December 2010, the Bank had 23 branches in its network, representing an increase of 11 branches as compared to 31 December 2005. The Bank has since opened a further two branches, taking the total number of branches to 25.

As at the date of this Prospectus, the Bank has a nationwide ATM network consisting of 95 ATMs and 16 cash and cheque deposit machines (**CCDM**). The Bank's call centre serves over 30,000 customers monthly. Retail internet banking was launched in 2009, with corporate internet banking following in the final quarter of 2010.

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

The Bank 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

The Bank considers quality of service as being key to maintaining client and customer satisfaction. To this end, in August 2004 the Bank established a separate Service Quality and Business Process Engineering Division. This division is part of the Bank'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 customers satisfaction surveys and oversees suggestion schemes. Furthermore, the unit regularly assesses the Bank's competitive position in the marketplace, as well as recommending business practice improvements.

In recognition of the high level of customer service that the Bank offers its customers, in 2009 the Bank was awarded the "Best Small Call Centre" and the "Best Quality Assurance Programme" in the Middle East at the Insights Middle East Call Centre Awards.

Strong Islamic banking presence and Sharia'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, the Bank has established a strong market presence in this sector. SIB offers customers a range of full service *Sharia'a* compliant banking products to retail and corporate clients. Through its retail branch network, the Bank is able to maintain a high visibility, both within and outside of Sharjah, serving to develop the Bank's brand for the benefit of its corporate and retail banking businesses.

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

Experienced Management Team

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

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

Strong links with the community

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

Activities of the Bank

Key Products

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

(a) *Murabaha* – a sale contract whereby the Bank 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;

(b) *Ijara* – a form of leasing contract which involves the Bank 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. The Bank retains ownership of the item throughout the arrangement and the client will pay periodic lease rentals to the Bank;

(c) *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

(d) *Musharaka* – a partnership in which the Bank participates in financing new or existing projects and shares in the capital and the returns.

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

(a) Retail Banking Group (**RBG**);

(b) Corporate Banking Group (**CBG**); and

(c) Investment Group (**IG**).

The following table, which is based on the Bank's audited financial statements for the year ended 31 December 2010, sets out the relative contribution (expressed as a percentage) made by each of the Bank's three major divisions, together with its subsidiaries, to the Bank's total revenue and total assets during the years ended 31 December 2010 and 31 December 2009.

Division	Contribution (%) to the Bank's total revenue	Contribution (%) to the Bank's total assets	Contribution (%) to the Bank's total revenue	Contribution (%) to the Bank's total assets
	Year ended 31 December 2010		*Year ended 31 December 2009*	
Retail Banking Group	37	25	44	28
Corporate Banking Group	46	32	40	33
Investment Group	12	36	11	32
Subsidiaries	3	4	5	4

Asset Composition of the Bank's Loan Portfolio

A breakdown of the Bank's loan portfolio by industry, as at 31 December 2010 and 31 December 2009, is set out below:

Economic Activity	31 December 2010		31 December 2009	
	(AED millions)	(%)	(AED millions)	(%)
Sovereign	3,154	31	3,323	32
Banks and Financial Institutions	92	1	109	1
Services	1,037	10	893	9
Personal	2,806	28	3152	30
Manufacturing	84	1	135	1
Trade	842	8	710	7
Transport and Communications	182	2	175	2
Contracting	1,858	18	1878	18
Others (rounding)	7	0	16	0
Total Customer Advances	**10,062**	**100**	**10,392**	**100**

Retail Banking Group

The RBG offers a comprehensive range of *Sharia'a* compliant Islamic financial services including general Islamic banking, personal finance and financial advisory services. The RBG also operates the Bank's Islamic credit card business, with over 3,000 credit cards and over 68,000 debit cards in issue as at 31 December 2010.

As at the date of this Prospectus, SIB has a network of 25 full service branches located across the UAE with 19 branches in the emirate of Sharjah, three branches in Dubai, two branches in the emirate of Abu Dhabi and one branch in Fujairah. The Bank plans to expand its branch network to 26 branches by 2012. Concurrent to this expansion programme the Bank completed a refurbishment of all of its existing branches.

The Bank has a large network of ATMs (inclusive of cash deposit machines and smart deposit machines) in the UAE, with 95 ATMs, spread across each of the emirates, as at the date of this Prospectus. The Bank is planning to strengthen its current network by increasing the number of its CCDMs to 20, as well as acquiring additional off-site ATMs.

The Bank also has a "Priority Banking" division (or "Al Awlawiya" in Arabic), 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.

The RBG is supported by a fully dedicated Marketing and Business Development (**MBD**) team that consists of marketing communications, branding and product teams. The MBD team focuses on product development, including the following recently launched products:

- **Prepaid Cards**

  Launched in 2008 under six themes targeted to different customer segments, SIB Visa prepaid cards were the first Islamic prepaid cards in the UAE. These prepaid cards have been popular with customers who would not typically be able to afford a conventional 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.

- **Off-Plan Property Finance**

  Branded under "Future Tamallak", this product was the first of its kind to be launched in the emirate of Sharjah and it remains the only off-plan property finance product available in the market.

- **Payroll Programme**

  The Bank's payroll programme was launched to coincide with the enactment of the UAE salary transfer law requiring all salaries be paid into a bank account.

- **Retail Land Finance**

  This product provides finance to the end-buyers of the Al Hoshi real estate project in Sharjah. As at the date of this Prospectus, the product is limited to this project, but the Bank plans to roll the product out to additional real estate projects in the UAE should market conditions improve.

- **0% Profit Finance**

  This innovative Islamic financing product was the first of its kind in the GCC region made available to corporate and retail customers.

- **Share Finance**

  Launched under Murabaha principles, the Bank's share finance programme provides investors the necessary platform for the purchase and sale of shares in the UAE equity markets.

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 the Bank by type of customer advance, as at 31 December 2010 and 31 December 2009, is set out below.

Product Type	**31 December 2010**		**31 December 2009**	
	(AED millions)	*(%)*	*(AED millions)*	*(%)*
Personal Finance	800	66	870	63
Mortgages	55	5	66	5
Auto	237	20	355	26
Credit Cards	90	7	66	5
Others	21	2	32	2
Total Customer Advances	**1,203**	**100**	**1389**	**100**

Retail Banking

As at 31 December 2010, the Bank maintained current accounts for over 12,000 customers, representing an increase of 14.2 per cent as compared to the year ended 31 December 2009. As part of its expansion strategy, the Bank plans to expand its retail banking business across the UAE. Within three years, the Bank intends to increase its market share to 50 per cent of the Sharjah retail bank market by implementing the following:

- partnerships with government and quasi-government entities as well as large businesses to acquire their payroll business through competitively priced service packages;

- leveraging existing payroll customers to cross-sell asset products;
- launching an innovative liability 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 the Bank's expatriate customers; and
- segmentation of the Bank's customer base and the development of segment-tailored products and services.

Retail Distribution Channels

In addition to its retail branch network, the Bank'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**). In 2011, the Bank plans to strengthen e-Channel by launching mobile banking and enhancing existing services by adding an "e-payment gateway", which will enable additional functionalities including Zakat & Sadaqat payments, airline ticket booking, and school/university fee payments.

As at the date of this Prospectus, the Bank's customers have access 95 ATMs and 16 CCDMs across the UAE. In addition to the Bank's own ATM network, its customers also have access to thousands of ATMs through the UAE ATM switch network. The bank also has a facility which allows its customers to pay utility bills through IVR and internet banking. The Bank'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.

The Bank 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, the Bank 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 the Bank's corporate customers, together with the Government and its related entities. CBG caters to clients ranging from mid-size corporate entities to public sector organisations and government related entities. CBG provides a range of *Sharia'a* compliant products to its customers including:

Corporate Solutions	**Trade Services**	**Cash Management**
Short term financing facilities* (Working Capital lines)	Letter of Credit	o Account Operations o Liquidity Management
o Murabaha		
o Wakala	Letter of Guarantee	
Long term financing facilities*		Transaction Management
o Ijarah		o Payments
o Musharaka		o Collections
o Murabaha		Channel Management
o Mudaraba		o Regular Reporting
		o Online Banking

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

A breakdown of corporate customer advances (excluding Government) as at 31 December 2010 is set out below:

Facility Type	**31 December 2010**	
	(AED thousands)	%
Funded		
Overdraft	154,267	4
Ijara	2,453,073	58
Murabaha	946,569	22
Musharaka	22,180	0
Other Direct	32,177	1
Unfunded		
Letters of Credit	122,117	3
Acceptance	22,799	1
Letters of Guarantee	468,416	11
Total Customer Advances	**4,203,598**	**100**

The Bank'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. The Bank also has dedicated corporate banks located in free-zones in Sharjah to target corporate clients operating in such free-zones.

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. CBG is supported by sophisticated IT infrastructure, trade finance and treasury expertise.

As at 31 December 2010, CBG held financing exposure of approximately AED 7.36 billion, including approximately AED 3.15 billion of direct Government exposure. As at 31 December 2010 the Bank's top 10 depositors constituted AED 4.4 billion (42.5 per cent.) of the Bank's total deposits.

The Investment Group

The IG brings together the Bank'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 the Bank'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 the Bank's capital can be deployed in the most efficient manner. The IG's strategy involves medium to long term opportunities and seeks to diversify the Bank'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 the Bank'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. The IBD's clients include Sharjah Electricity and Water Authority, Sharjah Chamber of Commerce and Industries and Sharjah Airport Authority. The IBD also runs the proprietary investment portfolio that includes medium to long term investments in listed and private equity, investment funds, sukuks and real estate portfolio comprising of investment properties and properties held for sale.

The breakdown of the Bank's investment assets is set out in the table below as at 31 December 2010.

Instrument Type	**Market value at 31 December 2010**	**Percentage**
	(AED millions)	*(%)*
Sukuk	169.8	10.2
Funds	195.3	11.7
Direct Investments	106.5	6.4
Real Estate	1,195.8	71.7

Treasury

The Treasury Division (**TD**) is responsible for managing the Bank's cash flow.

The prominent functions of TD are:

(a) liquidity management under money market operations across different currencies;

(b) foreign exchange cover operations to handle customer related foreign exchange requirements; and

(c) 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 large exposure limits from many GCC financial institutions, allowing the TD to easily meet the funding requirement of the Bank. The TD plans and manages the Bank'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:

(a) wakala deposits with/from banks;

(b) international murabaha (metal based transactions);

(c) short term placements/borrowings;

(d) foreign exchange activities;

(e) Islamic certificate of deposits; and

(f) reverse murabaha.

For the year ended 31 December 2010, the TD's fund based business had a turnover of more than AED 150 billion, with revenue of AED 55.0 million. In the same period, the TD's fee-based foreign exchange business had a turnover of AED 18.4 billion, with revenue of AED 10.3 million.

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

(a) special fixed deposits – *Sharia'a* approved commodity murabaha based fixed deposit transactions structured to offer a pre-agreed profit rate;

(b) wakala deposits from customers;

(c) 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

(d) SIB 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 the Bank's relationships with financial institutions and provides support to the Bank'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 the Bank and its banking counterparts. In addition, the FID ensures that the Bank's Nostro accounts cover all geographical areas so as to support the Bank's operational and customers' needs.

Relationships and Strategic Alliances

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

The Bank 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 the Bank in 2005 for customer subscriptions. The Bank intends to continue to create new alliances whenever suitable opportunities arise.

Subsidiaries of the Bank

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

(a) Sharjah National Hotel Corporation (**SNHC**);

(b) Sharjah Islamic Finance Services (**SIFS**); and

(c) ASAS Real Estate (**ASAS**).

Sharjah National Hotel Corporation

In June 2006, the Bank acquired the SNHC from the Government. SNHC owns three high-end hotels and resorts: (i) the Marbella Resort; (ii) the Holiday International Hotel; and (iii) the Khorfakkan Oceanic Beach Hotel (all located in the emirate of Sharjah). The Bank's investment in SNHC is in line with the Bank's general objective of diversifying its investments. As at the date of this Prospectus, SNHC is undertaking a major renovation of its properties and is working with external consultants to modernise their facilities. The renovations involve upgrades to the existing facilities and are expected to be completed by the third quarter of 2011.

Sharjah Islamic Finance Services

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

ASAS Real Estate

ASAS formerly existed as a division of the Bank, but was incorporated as a subsidiary in 2011. As at the date of this Prospectus, ASAS is responsible for the management of the Bank's real estate assets, together with the real estate assets of the Bank's clients, including the Government. ASAS provides property management services and the Bank believes that the market for such services 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 the Bank's customers by seeking to achieve investment returns from the UAE real estate sector. ASAS was incorporated with AED 500 million of capital and is expected to begin producing its own financial statements in 2011.

The Bank's Competition

The Bank faces competition in all of its principal business areas. In its Retail Banking and Corporate Banking businesses, the Bank'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 December 2010, there were 51 banks holding full commercial banking licenses in the UAE, of which 23 were locally incorporated. In the Islamic banking market, the Bank'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, the Bank expects the demand for Islamic banking services will increase in the short to medium term. The Bank'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 the Bank 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 the Bank's resources, operations and financial results. The main risks that concern the Bank are credit, operational, market, liquidity, legal, regulatory and currency risks. The Bank aims to manage its exposure to these risks conservatively.

In December 2010, the Bank's risk management function was further strengthened by the realignment of the Bank's Enterprise and Risk Management Division (**ERMD**) and the Bank'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 the Bank's risk management lies with the Board of Directors, the Bank's risk governance structure has been designed to support the Board of Directors and its committees in their oversight of the risks that face the Bank in the performance of its activities. A key feature of the Bank's risk governance structure is the concept of "lines of defence", whereby each of the Bank'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 the Bank's risk is mitigated effectively. The Bank's risk architecture is based on a 3-tier approach:

(a) *Strategic Level*

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

(b) *Tactical Level*

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

(c) *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 the Bank, including credit, liquidity and legal risks, and examining and evaluating the effectiveness of and compliance with the Bank's policies and procedures. The RMD reports to the Board of Directors through the CRO.

In particular, the RMD's responsibilities include:

(a) 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*;

(b) providing meaningful direction regarding the Bank's overall risk philosophy and appetite, including consideration and acceptability of new or unusual risk, ensuring strict adherence to risk management policies and procedures;

(c) reviewing the reliability and integrity of financial and operating information and the means used to identify, measure classify and report such information;

(d) examining and evaluating the quality of the advances portfolio and the credit management process (retail, corporate, real estate financing) in individual units throughout the Bank;

(e) identifying and dealing with special risks associated with any sort of change (including, economic, industry, regulatory and operating);

(f) overseeing the compliance function and regulatory requirements, including anti-money laundering (**AML**), know your customer (**KYC**) and combating the financing of terrorism; and

(g) managing and monitoring the implementation of the Basel II Compliance Project.

The Bank 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.

The Bank'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 the Bank. All of the Bank's risk policies and processes are reviewed and approved by the Board of Directors.

Reflecting the Bank's conservative attitude to risk, the Risk Management Policy Framework is reviewed by the Bank's auditors as well as by regulatory inspectors during their annual examination of the Bank. The Bank'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 the Bank to incur a financial loss. The Bank is exposed to credit risk through its financing receivables, leased assets, *wakalah* arrangements with financial institutions and investments in sukuk. The Bank's primary exposure to credit risk arises through its financing facilities to customers. In addition, the Bank is also exposed to balance sheet credit risk through contingent liabilities assumed by it.

The Bank 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, the Bank 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, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

The Bank 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, the Bank sets credit policies, procedures and credit limits. The Bank'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 the Bank's Board of Directors. In addition, regular audits of business units and the Bank's credit processes are undertaken by internal audit division.

Market Risk

Market risk is the risk that the Bank'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. The Bank 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 the Bank'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, the Bank is required to comply with the guidelines and regulations of the UAE Central Bank, as well as *Sharia'a* principles.

Settlement Risk

The Bank'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 the Bank 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 the Bank's open position by Treasury with respect to current and expected exchange rate movements. The Bank 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 US Dollar is pegged since November 1980 and the Bank's exposure to foreign exchange rate risk is limited to that extent.

As at 31 December 2010, the Bank had the following significant net exposures denominated in foreign currencies:

	Net Position (equivalent AED thousands)	
Currency	**2010**	**2009**
US Dollar	(3,547)	(47,846)
Sterling Pound	67	130
Euro	(79)	(74)
Bahrani Dinar	6,711	6,702
Qatari Riyal	189	397
Saudi Riyals	1,584	1,663
Kuwaiti Dinar	35,736	42,063
Omani Riyal	26,439	26,390

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 the profit rate risk in terms of the re-pricing of its liabilities since primarily, in accordance with Islamic *Sharia'a*, the Bank 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 the Bank 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 2010, the Bank's financing receivables to deposit ratio stood at 95.3 per cent. The Bank'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 the Bank's assets is set out below for the years ended 31 December 2010 and 2009.

31 December 2010

	AED thousands				
	Less than 3 months	**3 months to 1 year**	**1-5 years**	**Over 5 years**	**Total**
Assets					
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
	4,613,496	**890,198**	**5,267,239**	**3,518,824**	**14,289,757**
Liabilities and equity					
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	–	101,675	–	437,298
	9,142,732	**3,073,945**	**101,675**	**–**	**12,318,352**

31 December 2009

	AED thousands				
	Less than 3 months	**3 months to 1 year**	**1-5 years**	**Over 5 years**	**Total**
Assets					
Cash and balances with banks and financial institutions	1,382,736	34,379	1,137	1,411	1,419,663
Wakalah arrangements with financial institutions	1,762,707	–	–	–	1,762,707
Financing receivables	702,695	179,090	981,341	756,235	2,619,361
Leased assets	173,363	677,987	2,326,091	4,224,886	7,402,327
Investments securities	18,892	76,644	296,654	129,568	521,758
	4,040,393	**968,100**	**3,605,223**	**5,112,100**	**13,725,816**
Liabilities and equity					
Customers' deposits	6,167,569	3,437,866	113,748	141,138	9,860,321
Due to banks	643,656	–	–	–	643,656
Sukuk payable	–	–	825,094	–	825,094
Other liabilities and zakat	238,099	–	143,067	–	381,166
	7,049,324	**3,437,866**	**1,081,909**	**141,138**	**11,710,237**

Equity Price Risk

Equity price risk arises from the change in fair value of equity instruments. The Bank 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 the Bank'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.

The Bank 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. The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Bank 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, the Bank 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 the Bank.

In addition, the Bank has also established a business continuity planning team which ensures that the Bank 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 the Bank. The Bank has an internal legal department which is headed by the VP Legal Counsel, who reports to the CRO.

Credit Division

The Bank 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 the Bank'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 the Bank;
- 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 the Bank'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 polices and *Sharia'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 the Bank'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 the Bank'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 the Bank in order to reduce portfolio losses.

The primary function of the Legal Division is to provide protection to the Bank 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 the Bank'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 the Bank. The division is also responsible for exercising security engineering, managing identity and access as well as evaluating the effectiveness of and compliance with the Bank's IT Security policies and procedures.

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

Capital Adequacy

The UAE Central Bank has 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 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.

The Bank's capital adequacy figures for the years ended 31 December 2010 and 31 December 2009 are set out in the table below:

	BASEL II		BASEL I	
	2010	**2009**	**2010**	**2009**
	(AED thousands)	*(AED thousands)*	*(AED thousands)*	*(AED thousands)*
Tier 1 capital				
Ordinary share capital	2,425,500	2,310,000	2,425,500	2,310,000
Retained earnings	303,103	208,483	303,103	208,483
Statutory and special reserve	89,008	89,008	89,008	89,008
Legal Reserve	1,312,189	1,443,117	1,327,615	1,443,117
Total Tier 1 Capital Base	**4,129,800**	**4,050,608**	**4,145,226**	**4,050,608**
Tier 2 capital				
Fair value reserve	–	397	(15,426)	883
Collective impairment provisions	47,502	37,566	–	–
Total Tier 2 Capital Base	47,502	37,963	(15,426)	883
Total Capital Base	4,177,302	4,088,571	4,129,800	4,051,491
Risk weighted assets:				
On balance sheet	16,743,999	16,040,427	16,696,502	16,002,462
Off balance sheet	752,927	775,341	277,021	300,185
Credit Risk	10,769,632	10,679,111	9,357,724	9,652,365
Market Risk	38,586	45,583	–	–
Operational Risk	945,689	1,131,476	–	–
Risk weighted assets	11,753,907	11,856,170	9,357,724	9,652,365
Tier 1 Ratio	35.14%	34.15%	44.30%	41.96%
Capital adequacy ratio	35.54%	34.47%	44.13%	41.97%

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 the Bank and capital requirements, the Bank's Board of Directors may propose a dividend after announcing the Bank's year-end financial results. In accordance with UAE Central Bank guidelines, the Bank 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 the Bank's annual general meeting.

Basel II

The implementation of the Basel II initiative within the UAE is governed by the UAE Central Bank circular 3735 of August 2006 (the **Circular**). The Bank 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.

Corporate Governance

The Bank applies the basic principles of good corporate governance across each of its functions. In 2007, the Bank 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 the Bank are overseen by the *Sharia'a* Supervisory Board, thereby guaranteeing strict conformity with Islamic principles.

The Bank's corporate governance structure is supported by the Bank'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.

The Bank 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 the Bank'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 the Bank:

- 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 the Bank's corporate governance framework;
- the CEO attends Audit Committee meetings as a permanent invitee only; and
- the Internal Audit, Risk Management and *Sharia'a* Control divisions are independent and have clear reporting lines.

Sharia'a Compliance

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

The management of the Bank with the consent of the SSB, nominates an employee of the Bank as a secretary to co-ordinate with the *Sharia'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 *Sharia'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.

Credit Approval Procedures

Credit Exposure

The financing policy of the Bank is guided by its Islamic Financing Policy Framework, which is reviewed from time to time in light of market conditions. At all times, the Bank 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

The Bank'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 *Sharia'a* rules and principles, the Bank 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 the Bank. 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 the Bank's Credit Committee. As such, the management of the Bank believes that delinquency rates have been comparatively low in retail product categories.

Following the recent financial crisis, the Bank 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 the Bank from the recent falls in the value of real estate across the UAE.

Corporate Banking Credit Approval Procedures

Credit Approval Philosophy

The Bank has a centralised credit approval philosophy with ultimate authority resting with the Credit Committee, Executive Committee and Board of Directors. The Bank'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 the Bank's Board of Directors that restrict lending in certain areas. In particular, the Bank maintains a dynamic 'watch list' of countries from which no investment or lending can take place. In addition, the Bank maintains sector limits in order to mitigate the effects of concentration risk and exposure to certain industries.

The Bank'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

The Bank 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. The Bank 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 the Bank'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

The Bank 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, the Bank 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. The Bank 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, the Bank classifies those accounts where recovery is considered doubtful and ensures provisions are made accordingly.

For the year ended 31 December 2010, the Bank's net profit was AED 266.4 million and consequently AED 6.3 million (2 per cent.) higher as compared to the year ended 31 December 2009. This was due primarily to an increased number of wakalah arrangements with financial institutions. The Bank 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 2.6 per cent. by 31 December 2010 from 1.4 per cent. reported as at 31 December 2009. The impairment allowance on financing receivables and leased assets in respect of 2010 increased to AED 161.4 million compared to AED 127.3 million in 2009. This increase was primarily due to an increase in the balance of impaired financing receivables at the commencement of 2010.

The following table summarises the movements in allowances for impairment for financing receivables for the Bank for the years ended 31 December 2010 and 2009.

Movement in allowances for impairment (financing receivables)	**2010**	**2009**
	(AED thousands)	*(AED thousands)*
Balance of allowances for impairment as at 1 January	109,394	64,983
Allowance for impairment made during the year	32,775	59,320
Recoveries made during the year	(6,333)	(14,711)
Amount written off during the year	(297)	(198)
Balance of allowances for impairment as at 31 December	**135,539**	**109,394**

The following table summarises the movements in allowances for impairment for leased assets for the Bank for the years ended 31 December 2010 and 2009.

Movement in allowances for impairment (leased assets)	2010	2009
	(AED thousands)	*(AED thousands)*
Balance of allowances for impairment as at 1 January	17,864	19,496
Allowance for impairment made during the year	7,996	1,368
Recoveries made during the year	–	(3,000)
Balance of allowances for impairment as at 31 December	**25,860**	**17,864**

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.

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

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

Regulation of Islamic Banks

The Bank 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 *Sharia'a* Committee which ensures the adherence to *Sharia'a* principles in the banks' operations and contracts.

Sharia'a Supervisory Board

The SSB oversees the application of different aspects of *Sharia'a* within the Bank and ensures that all transactions are in strict compliance with *Sharia'a* principles. The Board of Directors is obliged to obey the *fatwa* (Judgements) 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 Prospectus, the three members of the Bank's SSB are:

Dr Hussein Hamid Hassan (Chairman) received a PhD from the Faculty of *Sharia'a* at Al Azhar University in Cairo, Egypt in 1965 and also served as Professor of *Sharia'a* at Cairo University until 2002. He is the author of 21 books on Islamic law and serves as a member of the Islamic supervisory board of a number of other financial institutions.

Dr Abdul Sattar Abu Ghuddah (Member) holds a PhD in Islamic law and comparative Fiqh from Al Azhar University Cairo, Egypt. He has taught at various institutes, including at Imam Al Da'awa Institute (Riyadh), Religious Institute (Kuwait), and at the *Sharia'a* College of the Law Faculty in

Kuwait University. He is an active member of Islamic Fiqh Academy and the Accounting & Auditing Organization of Islamic Financial Institutions.

Dr. Ajeel Jasim al Nashmy (Member) is currently a Professor at Kuwait University where he works in the Faculty of *Sharia'a* and Islamic Studies. Having completed his academic career at Al Azahr University and Kuwait University he achieved a PHD in Islamic Fiqh from Al Azahr. He has published in excess of seven books and 15 papers on contemporary matters relating to Islamic *Sharia'a* issues.

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

Sharia'a Control Division

The SCD determines the level of compliance of the Bank's activities within the requisite *Sharia'a* rules approved by the SSB. It acts as a conduit between the various divisions of the Bank and the SSB. It also solves any daily queries relating to *Sharia'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 2010, the Bank owned land and buildings classified as Investment Properties and Properties Held for Sale in the financial statements at a carrying value of AED 1.2 billion.

Capital Expenditure

The Bank does not expect to incur capital expenditure outside its ordinary course of business. For the year ended 31 December 2010, the Bank incurred AED 118 million of capital expenditure, compared to approximately AED 74 million for the year ended 31 December 2009. The Bank expects to undertake approximately AED 24 million of capital expenditure in 2011, principally for investment in information technology (**IT**), expanding and refurbishing its branch network Branches and purchasing vehicles which will be used for operational purposes.

Basel III

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

Compliance Risk and Anti-Money Laundering Policies

The Bank has implemented detailed AML and KYC policies and procedures. The responsibility for the Bank's compliance function rests with the Head of Compliance. The Head of Compliance is also the Bank's nominated money laundering reporting officer (**MLRO**). As part of its AML policy, the Bank 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 the Bank.

The MLRO acts as the main coordinator and point of contact between the Bank 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 the Bank's customer database. If a suspicious case arises, the MLRO will investigate and undertake appropriate action including reporting the case to AMLSCU if necessary.

The Bank's compliance department ensures that the Bank meets each of its regulatory obligations as well as ensuring that it is up to date with all regulatory developments. The Bank 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 the Bank's AML policy and procedures. In addition, the Bank conducts AML workshops for all of its employees.

Internal Audit

The Bank'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 the Bank and is led by the Chief of Internal Audit. In order to ensure independence and objectivity, in line with the Bank'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 the Bank are conducted. Furthermore, the IAD monitors the Bank'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 the Bank's control framework. The IAD provides assurance to the Board of Directors that the Bank's resources are performing in a controlled manner.

Funding

The Investment Group's TD manages the overall short-term and long-term liquidity of the Bank, guided by the overriding principle of prudent liquidity management. The division operates under the direction and instruction of the Bank's ALCO. Most of the Bank'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 the Bank's liquidity position remains at a comfortable level.

In 2008, the Bank took advantage of the Federal Government's liquidity facility, drawing AED 630 million of lower Tier II securities. These securities were drawn in two tranches, and will mature in 2011 and 2013, whereupon the Bank expects to repay them in full. See further *The United Arab Emirates Banking System and Prudential Regulation – Recent Trends in Banking – Liquidity*.

Through its IBD, the Bank also raises money through the international capital markets. As at the date of this Prospectus, the Bank has U.S.$ 225 million of sukuk outstanding, which is due to mature in October 2011.

Information Technology

The Bank regards the role of IT to be significant in ensuring that the Bank remains responsive and flexible to the competitive and dynamic forces of the environment within which it operates. The Bank's IT division is focused on utilising the most advanced IT systems to secure the Bank's customers and ensure that customers' data is well protected and secured against unauthorised entry. Accordingly, the Bank continues to invest in IT to ensure that it is resourced in line with modern banking requirements. The Bank spent AED 24 million on IT expenditure during 2010 and it expects to spend approximately AED 20 million on IT investment in 2011.

Substantial investments have been made in improving the Bank's overall IT infrastructure with a view to assuring availability, reliability and integrity of business services to customers as well as enhance internal efficiencies. In 2009 and 2010, new systems were implemented to support newly introduced delivery channels internet banking, online cash and cheque deposit modules, as well as improving the features of existing products offered by the Bank. The Bank is committed to investing in constant technology upgrades and deployment of the latest technology. As such, in 2008, the Bank adopted a server and storage consolidation strategy encompassing the latest hardware and operating systems in order to exploit virtualisation and on-demand technologies. Reflecting the Bank's goal of maintaining a leading IT division, strategic alliances with global partners including IBM, Oracle, Microsoft, Fermat, D&B, Misys, S1 and CTL have been formed. Strategic alliances with global partners complement the Bank's efforts to manage and deliver business specific solutions by overcoming technological challenges. The Bank benefits from these relationships by receiving upgrades and training when required.

In 2011, the Bank plans to invest money in applying stringent ISO standards across the whole of its IT division to ensure that best practices are embedded within the management of technology resources and information. These standards reflect the Bank's commitment to assuring consistency and quality across its business.

The Bank is committed to ensuring the highest levels of information security are maintained. As such, in 2009 the Bank rolled out an information security programme that is based on the ISO 27000 framework. The security programme incorporates effective control mechanisms which monitor compliance, access control and awareness and vulnerability management. The security and reliability of the Bank's IT services is protected by the use of a disaster and recovery site at a remote location providing online real-time disaster recovery capability. The Bank's IT division carries out daily and other periodic data back-ups which are also stored remotely. The Bank carries out regular intrusion tests on its IT network with the assistance of an external vendor.

Insurance

The Bank has various insurance policies in place, including property, motor fleet and public liability. The Bank believes that these insurance policies provide it with comprehensive insurance coverage against the various risks to which the Bank may be exposed.

Litigation

The Bank 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 the Bank.

Therefore no material provision has been made as at 31 December 2010 regarding any outstanding legal proceedings against the Bank.

Fiscal Year

The fiscal year of the Bank is the calendar year ending on 31 December.

Auditors

The independent auditors of the Bank are Messrs KPMG, Chartered Accountants, of P.O. Box 28653, Al Batha Tower, Buhaira Corniche, Sharjah, UAE who have audited the Bank's accounts, without qualification, in accordance with International Standards on Auditing for each of the financial years ended on 31 December 2010 and 31 December 2009.

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.

RECENT DEVELOPMENTS

Financial Position

As at 31 March 2011, the Bank's total assets were AED 17.1 billion, representing an increase of AED 470.8 million (2.8 per cent.) as compared to AED 16.7 billion as at 31 December 2010.

Total liquid assets

As at 31 March 2011, the Bank's total liquid assets* were AED 4.0 billion, representing a decrease of AED 139.6 million (3.3 per cent.) as compared to AED 4.2 billion as at 31 December 2010.

* total liquid assets include Cash and balances and Wakalah arrangements with banks and financial institutions

Customers' receivables – net of provisions

As at 31 March 2011, the Bank's net customer receivables were AED 10.3 billion, representing an increase of AED 611.6 million (6.3 per cent.) as compared to AED 9.7 billion as at 31 December 2010.

Customers' deposits

As at 31 March 2011, the Bank's customer deposits were AED 11.1 billion, representing an increase of AED 757.0 million (7.3 per cent.) as compared to AED 10.4 billion as at 31 December 2010.

Statement of Income

For the three month period ended 31 March 2011, the Bank had a net profit of AED 70.0 million, representing an increase of AED 2.5 million (3.7 per cent.) as compared to AED 67.5 million for the three month period ended 31 March 2010.

For the three month period ended 31 March 2011, the Bank had provision net of recoveries of AED 9.8 million, representing an increase of AED 7.9 million (422.2 per cent.) as compared to AED 1.9 million for the three month period ended 31 March 2010.

For the three month period ended 31 March 2011, the Bank's profits allocated and distributed to depositors amounted to AED 64.8 million, representing a decrease of AED 7.1 million (9.8 per cent.) as compared to AED 71.9 million for the three month period ended 31 March 2010.

For the three month period ended 31 March 2011, the Bank had a net operating income of AED 144.6 million, representing an increase of AED 3.4 million (2.4 per cent.) as compared to AED 141.2 million for the three month period ended 31 March 2010.

Key Performance Indicators

As at 31 March 2011, the return on average shareholders' equity reached 6.6 per cent. as compared to 6.4 per cent. as at 31 March 2010.

As at 31 March 2011, the Bank's capital adequacy ratio was 36.00 per cent. as compared to 35.54 per cent. as at 31 December 2010.

SELECTED FINANCIAL INFORMATION

The following tables set out in summary form the financial position and statement of income information relating to the Bank. Such information is extracted from the audited condensed consolidated financial statements of the Bank for the years, ended 31 December 2010 and 31 December 2009 and the reviewed consolidated financial statements for the three month period ended 31 March 2011. Such financial statements together with the auditors reports of KPMG (in respect of the audited financial statements) and the accompanying notes, appear elsewhere in this Prospectus. The financial information presented below should be read in conjunction with such financial statements, reports and the notes thereto.

Sources of Funding

The Bank'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 the Bank as at 31 December 2010 (audited) and 31 December 2009 (audited):

Description	**31 December 2010**	**31 December 2009**
	(AED millions)	*(AED millions)*
Customer Deposits	10,378	9,860
Due to Banks	677	644
Sukuk	826	825
Shareholders' Equity	4,349	4,264

Assets and Investments

The following summarises the position in relation to some of the Bank's principal assets and investments as at 31 December 2010 (audited) and 31 December 2009 (audited):

	31 December 2010	**31 December 2009**
	(AED millions)	*(AED millions)*
Leased Assets	7,536	7,402
Investments	472	522
Investment Properties and Properties held for sale	1,196	1,165
Property and Equipment	821	729
Cash and Balances with Banks and Financial Institutions	1,922	1,420
Financing Receivables	2,118	2,619
Wakala Arrangement with Financial Institutions	2,243	1,763

Loans and Advances

The following table summarises the movement of loans and advances and related provision for impairment as at 31 December 2010 (audited) and 31 December 2009 (audited):

	31 December 2010	**31 December 2009**
	(AED millions)	*(AED millions)*
Loans and advances	161	161
Provisions for impaired loans and advances	(161)	(161)
Loans and advances (net position)	–	–

Contingent Liabilities and Commitments

The following summarises the position in relation to the Bank's contingent liabilities and commitments as at 31 December 2010 (audited) and 31 December 2009 (audited):

	31 December 2010	**31 December 2009**
	(AED millions)	*(AED millions)*
Letters of Credit	137	70
Letters of Guarantee	607	659
Other Financial Commitments	712	712
Capital Commitments	36	40

Risk Asset Ratio and Leverage

The Risk Asset Ratio as reported to the Central Bank closed at 44.1 per cent. for the year ended 31 December 2010 and 42.0 per cent. for the year ended 31 December 2009. This remains above the regulatory minimum 10 per cent. set by the Central Bank of the UAE. In the opinion of the Bank it has adequate capital to meet its requirements.

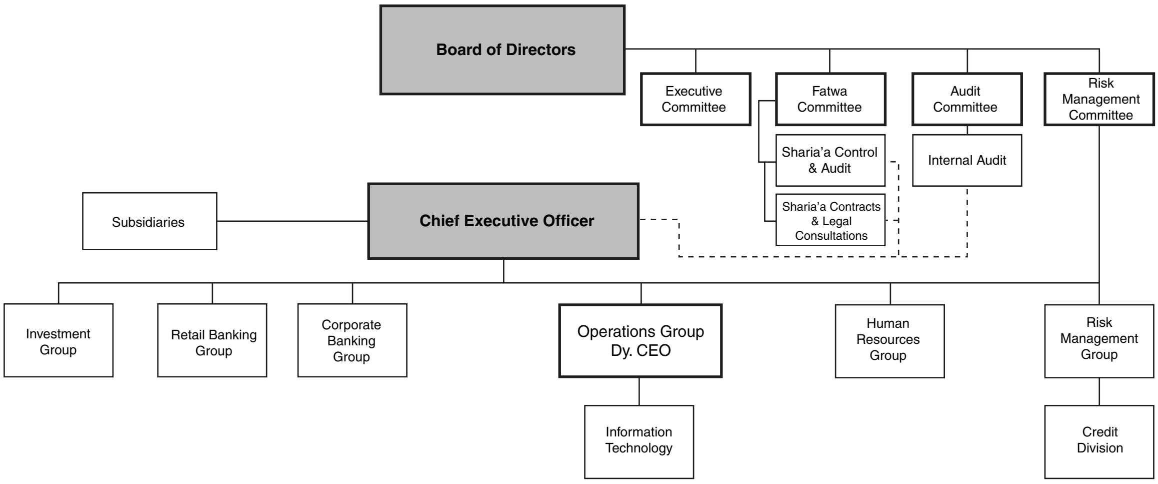
	As at 31 March 2011 (unaudited)	As at 31 March 2010 (unaudited)	As at 31 December 2010 (audited)[1]	As at 31 December 2009 (audited)[1]
Income Statement Data		(in AED Millions)		
Total Revenue[2]	221	208	880	883
Total General and Administrative Expenses	(76)	(67)	(301)	(284)
Provisions net of Recoveries	(10)	(2)	(31)	(34)
Distribution to Depositors	(65)	(72)	(282)	(304)
Net Profit for the period/year	70	67	266	260
Financial Position Data		(in AED Millions)		
Total Assets	17,138	16,173	16,667	15,975
Murabaha and other Islamic financing[3]	2,330	2,278	2,118	2,619
Ijara financings[4]	7,935	7,415	7,536	7,402
Investments[5]	1,677	1,682	1,668	1,688
Depositors' accounts	11,135	10,102	10,378	9,860
Due to Banks	323	668	677	644
Equity attributable to equity holders[6]	4,282	4,216	4,349	4,264
Income Statement Data		(in USD Millions)		
Total Revenue[2]	60	57	240	240
Total General and Administrative Expenses	(21)	(18)	(82)	(77)
Provisions net of Recoveries	(3)	(1)	(8)	(9)
Distribution to Depositors	(18)	(20)	(77)	(83)
Net Profit for the period/year	19	18	72	71
Financial Position Data		(in USD Millions)		
Total Assets	4,666	4,403	4,538	4,349
Murabaha and other Islamic financing[3]	634	620	577	713
Ijara financings[4]	2,160	2,019	2,052	2,015
Investments[5]	457	458	454	460
Depositors' accounts	3,032	2,750	2,825	2,684
Due to Banks	88	182	184	175
Equity attributable to equity holders[6]	1,166	1,148	1,184	1,161
Profitability Indicators				
Annualized Return on Average Asset (%)[7]	1.7%	1.7%	1.6%	1.7%
Annualized Return on Average equity (%)[8]	6.6%	6.4%	6.2%	6.2%
Earnings Per Share (AED)	0.03	0.03	0.11	0.11
Equity / Total Assets	25%	26%	26%	27%
Total regulatory capital expressed as a percentage of total risk weighted assets	36%	36%	36%	34%
Liquidity & Business Indicators				
Liquid Assets[9] / Total Assets	23%	22%	25%	20%
Financings / Total Deposits	90%	90%	87%	95%
Depositors' accounts / Total Deposits	97%	94%	94%	94%
Non-performing financing assets (NPA) / Net Financing	1.45%	0.59%	1.39%	0.51%
Financing/Depositors' accounts	92%	96%	93%	102%

Notes:

1. Ratios are not audited
2. Total Revenue is shown as Total Income in Financial Statements
3. Murabaha and other Islamic financing are reported as Financing Receivables in Financial Statements
4. Ijara Financings are reported as Leased Assets in Financial Statements
5. Investments include Investment Securities, Investment Properties and Properties Held-for-Sale in the Financial Statements
6. Equity attributable to equity holders is the Total Shareholders' Equity in the Financial Statements
7. Return on Average Asset has been calculated by annualising the Quarter Returns divided by the Average of Total Assets
8. Return on Average Equity has been calculated by annualising the Quarter Returns divided by the Average of Shareholders Equity
9. Include Cash and Balances with Banks and Financial Institutions and Wakalah with Financial Institutions

MANAGEMENT OF SHARJAH ISLAMIC BANK PJSC

The Bank's management structure is summarised in the organisation chart set out below:



Board of Directors

The Bank operates under the direction of a board of directors (the **Board of Directors**), which is comprised of eight members vested with the power to manage the Bank and conduct its business in accordance with its objects and with Federal Law No. 8 of 1984 concerning commercial companies of the UAE, the Bank'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 the Bank's performance and for reporting to the shareholders.

As at the date of this Prospectus, the Board of Directors is comprised of the 8 directors listed below:

Name	Position
H.H. Sheikh Sultan Bin Mohammed Bin Sultan Al Qassimi – Crown Prince of Sharjah	Chairman
H.E. Abdul Rahman Mohammed Nassir Al Owais	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. Ahmed Mohamed Obaid Al Shamsi	Board Member
Mr. Jassar DJ Al Jassar	Board Member
Mr. Mohammad NA Al Fouzan	Board Member

H.H. Sheikh Sultan Bin Mohammed Bin Sultan Al Qassimi - Crown Prince and Deputy Ruler of the Emirate of Sharjah, has been the Chairman of the Bank since 1995 and represents the Government of Sharjah. He is also Chairman of the Executive Council of Sharjah

H.E. Abdul Rahman Mohammed Nassir Al Owais is the Vice Chairman of the Bank's board. He has been a Board Member of the Bank since 1995. He is Minister of Culture, Youth & Social Development of UAE and also a board member/director of Sharjah Insurance Company, Real Estate Bank and Al Owais Real Estate Company).

Mr. Othman Mohammed Sharif Abdalla Zaman has been a Board Member of the Bank since 1995. He is also a board member/director of Sharjah Insurance Company and Sharjah Cement and Industrial Development Company.

Mr. Ahmed Ghanim Saeed Matar Al Suwaidi has been a Board Member of the Bank since 1995 and represents the Government of Sharjah. He is also a board member/director of Gulf Energy Limited and Gulf Navigation

Mr. Ali Salim Ali Salim Al Mazrou has been a Board Member of the Bank since 1995 and represents the Government of Sharjah. He is also a board member/director of Emirates Stones, Lamtalco and Municipal Council of Sharjah

Mr. Ahmed Mohamed Obaid Al Shamsi has been a Board Member of the Bank since 1995 and represents the Government of Sharjah. He is also a board member/director of Falcon Group and Sharjah Transport

Mr. Jassar DJ Al Jassar has been a Board Member of the Bank since 2001. He is also a board member/director of Warba Bank and Al Tilal Holding Co.

Mr. Mohammad NA Al Fouzan has been a Board Member of the Bank since 2008. He is also a board member/director of Al Mathna Investment and Integrated Systems Group

The business address of the Bank'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 the Bank and his private interests or other duties.

Senior Management

The day-to-day management of the Bank 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 the Bank and submits its recommendation to the Board of Directors.

As at the date of this Prospectus, the Senior Management is comprised of the following managers.

Name	Position
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
Mohamed Azmeer	Head of Credit Division
Mona El Shinnawy	Head of Strategic Development Department
Jassem Mohamed Al Baloushi	Acting Head of Retail Banking
Gautam Sinha	Chief Information Officer
Mohamed El-Bahi	Financial Controller
Hussam Abu Aisheh	Chief of Internal Audit Division
Muhammad Ishaq	Head of Treasury Division
Anver Jalaldeen	Head of Capital Markets and Direct Investment

Mohamed A Abdalla, Chief Executive Officer

Mr Abdulla has served as Chief Executive Officer of the Bank since 2006 having joined the bank in 1984. He has over 27 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 the Bank 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 of the Bank since 1998. He holds a bachelors degree in commerce from Cairo University. He is also a Certified Accountant. Prior to joining the Bank, he has worked with Qatar National Bank and Commercial International Bank, Egypt (formerly Chase National Bank). He has over 27 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 the Bank . He hold a master of arts degree from India. Prior to joining the Bank, he worked with ABN Amro and The Hong Kong Metropolitan Bank. He has over 29 years' of experience in the banking industry.

Saeed M Al Amiri, Head of Investment Group

Mr Amiri joined the Bank 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 the Bank, he worked with Sharjah Department of Economic Development. He has nine 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 the Bank since 2010 having been with the Bank since 2004. He holds a graduate degree, majoring in finance, from University of Colorado, Denver. Prior to joining the Bank, 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 the Bank since 2007. She holds a Masters in Business Administration degree from the American University of Hawaii. She has over 12 years' experience in managing human resources at the Bank.

Mohamed Azmeer, Head of Credit Division

Mr Azmeer has served as Head of Credit Division of the Bank since 2006. He holds a master in business administration degree from the University of Leicester. Prior to joining the Bank, he has worked with Citibank and Al Rajhi Bank. He has over 28 years' of experience in the banking industry.

Mona El Shinnawy, Head of Strategic Development Department

Ms El Shinnawy has served as Head of Strategic Development Division of the Bank since 2005, having joined in 2004. She holds a Masters of Arts in Commerce from American University Cairo and Bachelors of Arts from Cairo University. She has over 25 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

Mr Al Baloushi has served as Acting Head of Retail Banking of the Bank since 2010 and has been with the Bank since 2006. He holds a master of business administration degree from University of Sharjah. Prior to joining the Bank, he has worked with Etisalat for 17 years.

Gautam Sinha, Chief Information Officer

Mr Sinha has served as Chief Information Officer of the Bank since 2008. He holds a bachelor in science in electrical engineering degree from Bangalore University, India and also hold diplomas in computer sciences from IIS, Bangalore. Prior to joining the Bank, he has worked with Citibank. He has over 25 years' of experience in the banking industry.

Mohamed El-Bahi, Financial Controller

Mr El-Bahi has served as Financial Controller of the Bank since 2005. He holds a bachelors degree in commerce and business administration from Cairo University. Prior to joining the Bank, he worked with Qatar National Bank. He has over 17 years' of experience in the banking industry.

Hussam Abu Aisheh, Chief of Internal Audit Division

Mr Aisheh has served as the chief of IAD of the Bank since 2003. He holds a bachelor in science degree from Amman University, Jordan. He is also a Certified Public Accountant, Certified Internal Auditor, Certified Information Systems Auditor and holds a certification in control self assessment. Prior to joining the Bank, he has worked with Arthur Anderson and KPMG. He has over 12 years' experience in auditing and over nine years' experience in the banking industry.

Muhammad Ishaq, Head of Treasury

Mr Ishaq has served as Head of Treasury of the Bank since 2007. He holds a post graduate degree in commerce from Karachi University, Pakistan. Prior to joining the Bank, he has worked with ANZ Grindlays Bank. He has over 23 years' of treasury management experience out of his total experience of over 35 years' in the banking industry.

Anver Jalaldeen, Head of Capital Markets and Direct Investment

Mr Jalaldeen has served as Head of Capital Markets and Direct Investment of the Bank since 2008. He holds a graduate degree from Oklahoma State University, USA. Prior to joining the Bank in 2003, he worked with Wyndham Corporation, Fidelity Investments and Abu Dhabi Islamic Bank. He has over 14 years of experience in financial and investment management.

The business address for each 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 the Bank and his private interests or other duties.

Board Remuneration

The members of the Board of Directors of the Bank received AED 2.7 million in aggregate by way of board remuneration and benefits in kind during the year ended 31 December 2010.

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 the Bank 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 the Bank, 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 the Bank's financial reporting processes, maintaining accounting policies and reviewing and approving financial information. The AC is also responsible for reviewing reports on the Bank's internal controls, managing the relationship with the Bank's external auditors and monitoring control issues which are of a major significance to the Bank.

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 the Bank. 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 the Bank and the control processes with respect to such risks, reviewing the risk profile of the Bank and managing the risk management compliance and control activities of the Bank. In addition, the RMC provides a critical assessment of the Bank'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 the Bank 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 the Bank.

The members of the MC comprise the heads of the Bank'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 the Bank'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 IG. 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 the Bank's overall technology systems over the long and short term to ensure that IT initiatives are consistent with the strategic business goals of the Bank. The ITSC is responsible for providing guidance for the prioritisation and implementation of technology initiatives, reviewing IT operations, security plans and policies and reviewing the Bank's overall IT development, strategic opportunities and plans.

Asset and Liability Committee

The ALCO consists of eight members and is headed by the CEO. The objective of ALCO is to derive the most appropriate strategy for the Bank 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 six members and is headed by the CEO. The CC is responsible for managing the credit risk of the Bank by reviewing credit limits, policies and procedures. The CC also approves certain positions of the Bank and evaluates work out situations, as well as monitoring the Bank'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 the Bank's human capital.

The members of the HRC comprise the CEO, Deputy CEO, Head of IG and Head of the Human Resources Group. The HRC meets at least once every two weeks.

Employees

As at 31 December 2010, the Bank employed 829 full time employees. As at the same date, the Bank's subsidiaries had 414 full time employees in aggregate. The Bank has had no experience with strikes since its establishment and considers its relationship with its employees to be good. The Bank recently undertook a staff satisfaction survey with the results of the survey reflecting positive results which are consistent with the general results expected of similar institutions in the UAE where similar surveys have been undertaken.

The Bank 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 the Bank and its products and operations. The academy employs two full time trainers in order to service the needs of the Bank's employees.

Emiratisation

The Bank is committed to the development of UAE nationals. As a part of a its "Emiratisation" policy, the Bank 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, the Bank actively recruits talented UAE nationals. This has enabled the Bank 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), the Bank is able to enjoy the benefits of having a skilled and motivated local workforce.

As at 31 December 2010, UAE nationals comprised approximately 40 per cent. of the total workforce of the Bank, one of the highest percentages for any bank in the UAE. In recognition of its support of Emiratisation policies, in 2007 and 2008, the Bank received the Human Resources Development Award in Banking from the Department for Economic Development.

The Bank plans to continue to recruit, train and support UAE nationals in line with its "Emiratisation" policy.

Transactions with related parties

The Bank 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 2010 in respect of related parties are set out in the table below.

	2010	**2009**
	(AED equivalent)	
Government of Sharjah receivables	865,113	645,734
Government departments and authorities receivables	2,288,786	2,676,950
Other financing receivables and investing activities	611,069	497,075
Government of Sharjah deposits	137,191	7,776
Government department & authority deposits	2,213,253	2,328,230
Other deposits	223,660	245,028
Contingent Liabilities	42,845	70,992
Income from financing and investing activities	258,082	225,650
Depositors' share profit	36,301	49,143

As at 31 December 2010, the Bank had made facilities and investments to related parties totalling AED 3.8 billion and had received customer deposits from related parties totalling AED 2.6 billion. All of the Bank's related party transaction fall within the guidelines set by the UAE Central Bank.

THE UNITED ARAB EMIRATES BANKING SYSTEM AND PRUDENTIAL REGULATION

Summary

With 51 banks (comprised of 23 locally incorporated banks and 28 foreign banks) serving a population estimated to be in the region of approximately 5 million, the UAE could be viewed as an over-banked market, even by regional standards. Whilst UAE banks continue to be profitable, there is little impetus for consolidation. The UAE's membership in the World Trade Organisation (**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 expected to lead to increased competition, which should spur consolidation, both within the UAE and across the region generally.

As a banking regulator, the UAE Central Bank, established in 1980, has grown in stature over the years and is the governing body that regulates and supervises all banks operating in the UAE. The UAE Central Bank monitors banks through its Banking Supervision 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.

The UAE Central Bank does not act as a lender of last resort, a role which instead tends to fall on the individual Emirs of each Emirate.

Characteristics of the Banking System

Lack of Consolidation

There are 51 different banks licensed to operate inside the UAE (excluding the Dubai International Finance Centre (**DIFC**)). Most of these banks have traditionally shown healthy levels of profitability and maintained sound asset quality, and as such, there has been little impetus for consolidation. Mergers have historically tended to occur as a result of banks facing financial difficulties. The federal structure of the UAE has, to some extent, encouraged the fragmented nature of the banking sector, with the individual Emirates wishing to retain their own national banks. Rivalries between large local business families and a desire not to dilute shareholdings have also hampered the process of consolidation.

The relatively small size of most UAE banks has occasionally hindered them from competing for large financing transactions in the region. It also means that they have comparatively small franchises with which to absorb capital costs, such as information technology system development. The advent of WTO liberalisation should permit greater competition from foreign banks, both from new entrants to the market and from existing players expanding their operations, which may eventually result in more mergers, with the possibility of creating banks with pan-Gulf franchises.

Domestic Focus

The UAE-incorporated banks are predominantly focused on the domestic market but a number of these banks have small operations overseas and are showing growing interest in cross-border business. With a large number of banks competing for a limited number of wholesale lending opportunities, most banks have turned to the retail banking sector, a previously untapped market. However, increasing competition in this area is gradually eroding margins and encouraging a relaxation of lending criteria. Expansion of retail operations has required heavy investment in distribution channels, particularly ATM networks, kiosks and telephone and internet banking services. As a consequence, IT costs have been a prominent feature of many UAE banks' expenses.

Limited Foreign Ownership

In 1987, the 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 significant retail potential. However, three banks of GCC state origin, the National Bank of Kuwait, SAMBA and Doha Bank, have recently been awarded licences by the UAE Central Bank following an agreement to permit market access to banks of GCC state origin in line with continuing efforts in regional integration. The entry of these banks into the UAE banking market raised the number of foreign banks operating in the UAE to 28 and all banks in the region to 51.

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 opening of the DIFC has enabled international banks to establish a presence and contest 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

Sharia'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 such a way as to avoid the application of interest. The UAE is home to numerous institutions offering Islamic banking and financial products. Such institutions include: the Bank, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Emirates Islamic Bank, Dubai Bank, Noor Islamic Bank and Amlak Finance. The number of Islamic banks continues to increase, with both new entrants to the market and existing conventional banks recasting themselves as Islamic banks.

Supervision of Banks

The main piece of legislation applicable to 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 and monetary and fiscal policy and to ensure 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 that a bank experiences 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 to be the Government of Abu Dhabi who would ultimately stand as de facto defender of the currency and the lender of last resort.

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 dirhams, 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. Recently the UAE Central Bank introduced an auction system which allows U.S. dollar drawings against UAE dirhams CD holdings.

The UAE dirham is linked to the Special Drawing Right, the monetary unit of the reserve assets of the International Monetary Fund. However, the U.S. dollar is the intervention currency and, in practice, the UAE dirham is pegged to the U.S. dollar. This pegged exchange rate has been in place since the 1980s and has proven resilient both to political tensions in the region and to fluctuations in oil prices. However, given increasing inflation, the currency may be revalued.

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 Case 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 interagency 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 tended to be responsible for long-term financing. This has created a maturity mismatch on their balance sheets, as most of their liabilities are short-term customer deposits. However, the two stock markets, the Dubai Financial Market and the ADX (both of which were established in 2000), continue to develop and the number of listed companies continues to increase. 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. It is hoped that the development of these stock markets will help to create more mature bond and equity markets, thus alleviating the responsibility on the UAE banks to provide long-term financing.

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 manifest. 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, and expatriates are represented in the senior management of most of the major banks. This has brought expertise from more developed markets to the sector. The high level of expatriates in the UAE has been an increasing concern to 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. Banks are generally moving closer to this target, providing better training and compensation for UAE nationals.

Accounting Standards

Since 1 January 1999 all UAE banks have been required to prepare their financial statements in accordance with International Financial Reporting Standards (formerly International Accounting Standards (IAS)). Although this 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 institutions in the UAE fall into a number of categories, as defined by the Union Law. Domestic commercial banks, also known as "National" banks, of which there are currently 23, are required to be public shareholding companies with a minimum share capital of AED 40 million and must be majority owned by UAE nationals. Licensed foreign banks, of which there are currently 28, need to demonstrate that at least AED 40 million has been allocated as capital funds for their operations in the UAE. The Union Law also licenses "financial institutions" (institutions whose principal functions are to extend credit, carry out financial transactions, invest in moveable property and other activities, but are not permitted to accept funds 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 in recent years have allowed UAE banks to expand significantly and have ensured that the profitability of the banking sector remained high. However, the UAE economy has been negatively impacted by the global economic downturn and, in particular, by the sharp correction in the price of oil, which has also affected a number of key economic sectors including trade, tourism, real estate and commerce. This economic slowdown, along with reduced levels of liquidity in the market, which has constrained lending, has resulted in the majority of UAE banks being less profitable during 2008-2010 than in previous years.

During 2008-2010, a number of banks have also been affected by the impact of mark to market accounting rules on their international investment portfolios. However, return on equity for most UAE banks compares well internationally, reflecting the high margins that can be earned, particularly on retail lending and low cost income ratios.

In addition, towards the end of 2008, rents and property values fell significantly. This is expected to put pressure on the asset quality and profitability of banks going forward. These factors may adversely impact the UAE banking sector during 2011 and in later years.

Liquidity

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

Banks must also adhere to a maximum loan/financing deposit ratio of 100 per cent. set by the UAE Central Bank. In this context, loans/financings comprise loans/financings 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 63 per cent. of total deposits of the UAE banking sector as at 31 December 2010. The UAE Federal Government and the public sector contributed approximately 23 per cent. as at 31 December 2010. Non-resident and other sources contributed approximately 11 per cent. as at the same date.

In response to the global financial crisis, the UAE Central Bank has 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 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 repossession 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 billion in deposits to UAE banks (as part of a larger AED 70 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 announced in March 2009 that they would convert the UAE Federal Government deposits made with them into Tier II capital.

In Abu Dhabi, government-owned institutions assisted certain Abu Dhabi banks during 2008 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, in aggregate, a sum of AED 16 billion in subordinated Tier I Capital Notes issued by the five largest Abu Dhabi banks: NBAD, Abu Dhabi Commercial Bank, 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 billion funding programme and that the first tranche, valued at U.S.$10 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.

Certain mortgage companies based in the UAE have also experienced significant liquidity issues in recent months and plans are being formulated to support these institutions.

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 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. There can, however, be no assurance that any draft law will subsequently be passed. As such, until such time as the law is passed, there is no guaranteed government liquidity 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 accord in calculating their capital adequacy ratios. Since 1993, the UAE Central Bank has imposed a 10 per cent. minimum total capital ratio, of which the Tier I ratio must be above 6 per cent. and Tier II capital must not exceed 67 per cent. of Tier I capital. However, as a result of the global economic slowdown, the UAE Ministry of Finance and the UAE Central Bank announced on 4 March 2009 that they had temporarily increased the minimum total capital ratio to 11 per cent. to apply from 30 June 2009 and 12 per cent. to apply from 30 June 2012. Subsequently on 31 August 2009, the UAE Central Bank recommended that domestic and foreign banks operating in the UAE should establish a Tier I capital adequacy ratio of 7 per cent., with a minimum total capital adequacy ratio of 11 per cent., by 30 September 2009. Furthermore, the UAE Central Bank required banks operating in the UAE to increase their Tier I capital adequacy ratio to at least 8 per cent., with a minimum total capital adequacy ratio of 12 per cent. by 30 June 2010.

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.

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 by the UAE Central Bank to establish credit policies and procedures commensurate with their size and activities. They must also have a proper credit assessment and approval process and adequate controls in place to monitor credit concentrations to, among others, individual borrowers, economic sectors and foreign countries. The UAE Central Bank defines large exposures as any funded 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) are 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. in aggregate).

Exposures above these limits are subject to UAE Central Bank approval. Exposures to the government and sovereign risk are exempt from the regulations. In addition, the following 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/financings 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/Financing 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/financings with either interest or principal in arrears by more than 180 days must be placed on a non-accrual basis and classified as nonperforming. In practice, several banks operate more stringent policies and place loans/financings 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/financings from their books until all legal options for recovery have been exhausted. This factor tends to inflate the level of impaired loans/financings carried on the balance sheets of UAE banks when compared to banks operating in other economies.

OVERVIEW OF THE UAE AND THE EMIRATE OF SHARJAH

Introduction

The Emirate of Sharjah (the **Emirate**) is one of seven emirates which together comprise the Federation of the United Arab Emirates (the **Federation**). The Federation was established on 2 December 1971. On formation, the Federation comprised the following emirates: Abu Dhabi; Dubai; Sharjah; Ajman; Umm Al Quiwain; and Fujairah. Ras Al Khaimah joined in February 1972. The President of the UAE is Sheikh Khalifa bin Zayed Al Nahyan who is also the Ruler of Abu Dhabi, and the Vice President is Shiekh Mohammad bin Rashid Al Maktoum who is also the Ruler of Dubai. Since 1972, the Ruler of Sharjah has been Sheikh Dr. Sultan Bin Mohamed Al-Qasimi. The emirates enjoy significant autonomy and each has its own budget.

The Emirate of Sharjah is the third largest 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 Kisn 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 in total, 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.

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; Hamriya Port; and Khorfakkan.

Governance, Legislation and Judiciary

The UAE

UAE Constitution

The original constitution of the UAE (the **Constitution**) was initially provisional and provided the legal framework for the Federation. 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 Foreign Affairs, Defence, Justice, Finance and Economy. 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 Federation, 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 Dubai and Abu Dhabi 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.

The then Ruler of Abu Dhabi, Sheikh Zayed bin Sultan Al Nahyan, was elected in 1971 as the first President of the UAE and was re-elected as President for successive five-year terms until his death in November 2004. The then Ruler of Dubai, Sheikh Rashid bin Saeed Al Maktoum, was elected in 1971 as the first Vice-President of the UAE and continued as Vice-President until his death in 1990. Sheikh Zayed bin Sultan Al Nahyan was succeeded by his son Sheikh Khalifa bin Zayed Al Nahyan as Ruler of Abu Dhabi who was elected as President of the UAE in November 2004 by the members of the Supreme Council. Sheikh Mohammed bin Rashid Al Maktoum became the Ruler of Dubai in January 2006 upon the death of his elder brother Sheikh Maktoum bin Rashid Al Maktoum who had ruled Dubai since 1990. He was also nominated by the President of the UAE, Sheikh Khalifa bin Zayed Al Nahayan, to be the next Prime Minister and Vice President of the UAE in January 2006. The members of the Supreme Council accepted the President's nomination shortly thereafter.

Federal Council of Ministers

The Federal Council of Ministers (the **Cabinet**) is described in the Constitution as the executive authority for the Federation and is responsible for implementing policy decisions of the Supreme Council. The Cabinet is the principal executive body of the Federation. 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 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. Each emirate appoints members for a particular number of seats based on such emirate's population and size. Abu Dhabi and Dubai have eight members each, Sharjah and Ras Al Khaimah 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.

During 2006, reforms were made with a view to enhancing public participation in indirect elections to the Federal National Council. Under these reforms, the Ruler of each emirate selects an electoral college whose members are at least 100 times the number of Federal National Council members for the emirate. The members of each electoral college elect half of the Federal National Council members for their emirate, with the remainder being appointed by the Ruler.

Sharjah Executive Council

The Ruler of Sharjah delegates the management of Sharjah's government and its dependencies to the Sharjah Executive Council (**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.

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 (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, Sheikh Dr. Sultan Bin Mohamed Al-Qasimi.

UAE Credit Ratings

On 23 April 2010 Moody's reaffirmed the UAE's long-term credit rating of Aa2 with a stable outlook. The UAE is not rated by any of the other rating agencies.

Economy of the UAE and Sharjah

The UAE is the second largest economy in the GCC after Saudi Arabia. According to the Organisation of Petroleum Exporting Countries (OPEC) data, as at 31 December 2009, the UAE has approximately 7.3 per cent. of proven global oil reserves (giving it the seventh largest oil reserves in the world). The UAE's oil reserves generated 36.8 per cent. of the UAE's gross domestic product (**GDP**) in 2008 (according to the UAE Ministry of Economy) and approximately 35 per cent. of its export earnings (including re-exports) in 2009 (source: UAE Central Bank).

Based on International Monetary Fund data extracted from the World Economic Outlook (April 2010 and October 2010), real GDP growth in the UAE increased by 6.1 per cent. in 2007, 5.1 per cent. in 2008 and decreased by 2.5 per cent. in 2009. The UAE is expected to return to growth in 2010 by 2.4 per cent. and in 2011 by 3.2 per cent.

Although it has one of the most diversified economies in the GGC, the UAE's wealth remains largely based on oil and gas. 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 in 2008 was AED 71 billion, constituting 7.6 per cent of the UAE's total GDP of AED 934 billion in 2008. 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.

Foreign Direct Investment and Free Zones

There are many incentives for foreign corporate entities to set up in one of the free zones in Sharjah. 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.

Sharjah has two free zones, both established in 1995: Hamriyah Free Zone and Sharjah Airport International Free Zone.

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

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

The Declaration of Trust

The Declaration of Trust will be entered into on the Closing Date between the Trustee, SIB and the Delegate and will be governed by English law.

Pursuant to the Declaration of Trust, the Trustee will declare the Trust for the benefit of the Certificateholders over the Trust Assets and will, in relation to the Certificates, *inter alia*:

(a) hold the Trust Assets on trust absolutely for the Certificateholders (*pro rata* according to the principal amount of Certificates held by each Certificateholder); and

(b) act as trustee in respect of the Trust Assets, distribute the income from such Trust Assets and perform its duties in accordance with the provisions of the Declaration of Trust.

In the Declaration of Trust:

(a) the Delegate shall agree to undertake certain administrative functions in respect of the Conditions and the Transaction Documents including the delivery of an exercise notice to the Obligor in accordance with the Purchase Undertaking; and

(b) the Trustee shall on the occurrence of a Dissolution Event or Potential Dissolution Event irrevocably and unconditionally delegate to the Delegate the performance of certain present and future duties, powers, authorities and discretions vested in the Trustee by the relevant provisions of the Declaration of Trust including but not limited to the right to take enforcement action against the Obligor under the Purchase Undertaking and the Managing Agent under the Management Agreement.

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

A Transaction Account will be established in the name of the Trustee. Monies received in the Transaction Account will, *inter alia*, comprise: (i) payments from the Profit Collection Account immediately prior to each Periodic Distribution Date (see *Summary of the Principal Transaction Documents – Management Agreement* below); (ii) payment by the Managing Agent of the Investment Liquidation Amount immediately prior to a Dissolution Date (see *Summary of the Principal Transaction Documents – Management Agreement* below); and (iii) the Exercise Price received from the Obligor following the exercise of the Purchase Undertaking or Sale Undertaking (see *Summary of the Principal Transaction Documents – Purchase Undertaking* and *Summary of the Principal Transaction Documents – Sale Undertaking* below). The Declaration of Trust shall provide that all monies credited to the Transaction Account will be applied in the order of priority set out in Condition 4.2 (*Application of Proceeds from Trust Assets*).

Purchase Agreement

The Purchase Agreement will be entered into on the Closing Date between the Seller and the Trustee and will be governed by English law.

Pursuant to the Purchase Agreement, the Seller shall agree to convey, sell and transfer to the Trustee, and the Trustee shall agree to purchase, the Ijara Assets identified in the Purchase Agreement together with all of the Seller's rights, title, interests, ownership, benefits and entitlements in, to and under such Ijara Assets. The Seller shall represent and warrant to the Trustee that each Ijara Asset purchased by the Trustee shall be an Eligible Ijara Asset.

To the extent that:

(a) the sale and purchase or transfer of any ownership interest in an Ijara Asset pursuant to the Purchase Agreement is not effective in any jurisdiction for any reason, the Seller shall agree to make payment of an amount equal to the Value of such Ijara Asset by way of restitution to the Trustee immediately upon request and on receipt of such amount the Trustee shall immediately return such Ijara Asset to the Seller; and

(b) after the sale and purchase of an Ijara Asset pursuant to the Purchase Agreement such Ijara Asset ceases to be:

  (i) an Eligible Ijara Asset (other than as a result of the non compliance with paragraph (e) of the definition of Eligible Ijara Asset);

  (ii) becomes subject to an event of default and the Seller, as lessor, exercises its right to accelerate the obligations of the lessee under the associated Ijara Contract; or

  (iii) becomes subject to an adverse claim,

the Trustee shall be entitled to return to the Seller such Ijara Asset and receive from the Seller the refund of an amount in U.S. dollars equal to the Value of such Ijara Asset or one or more substitute Ijara Assets equal to the Value of such Ijara Asset in accordance with the terms of the Ijara Assets Sale Undertaking.

The purchase price payable for the Ijara Assets will be paid by the Trustee from the proceeds of the issuance of the Certificates.

Management Agreement

The Management Agreement will be entered into on the Closing Date between the Trustee and the Managing Agent and will be governed by English law.

Principal Functions of Managing Agent

The Trustee shall appoint the Managing Agent to manage the Sukuk Ijara Assets and the Investments. In particular, the Managing Agent will:

(a) do all acts and things (including execution of such documents, issue of notices and commencement of any proceedings) that it reasonably considers necessary to ensure the assumption of, and compliance by each lessee under an Ijara Contract relating to the Sukuk Ijara Assets with, its covenants, undertakings or other obligations under such Ijara Contract in accordance with applicable law and the terms of such Ijara Contract;

(a) use its reasonable endeavours to ensure: (i) the procurement of *takaful* (insurance) (if available) of the Sukuk Ijara Assets against such risks (including, without limitation, fire, flooding and natural perils) in an amount sufficient to reinstate the assets in full and that any claim under such insurance is diligently made or pursued; (ii) all structural repair and major maintenance without which the Sukuk Ijara Assets could not be reasonably and properly used by a lessee is carried out; and (iii) where applicable, payment is made of all taxes in relation to the Sukuk Ijara Assets by law imposed, charged or levied against a proprietor, but excluding all taxes that are by law imposed, charged or levied against a lessee;

(b) pay on behalf of the Trustee any actual costs, expenses, losses and taxes which would otherwise be payable by the Trustee as a result of the Trustee's ownership of the Sukuk Ijara Assets;

(c) use its reasonable endeavours to procure that any service agent appointed by it in respect of the Sukuk Ijara Assets carries out the duties that it has contracted to perform;

(d) maintain (in the name of the Managing Agent) three separate ledger accounts (referred to as the **Principal Collection Account**, the **Profit Collections Account** and the **Reserve Account**) in accordance with the Management Agreement;

(e) credit, promptly after receipt, all revenues generated by the Sukuk Ijara Assets in the nature of principal (including fixed rental payments, total loss/expropriation insurance proceeds, total loss/expropriation indemnity payments, damages, compensation and any Customer Exercise Payments (as defined below)) (**Principal Revenues**) to the Principal Collections Account;

(f) use Principal Revenues credited to the Principal Collections Account to either:

(i) purchase (on behalf of the Trustee) additional Ijara Assets from the Seller by exercising the rights of the Trustee under the Ijara Assets Sale Undertaking (see *Summary of the Principal Transaction Documents –Ijara Assets Sale Undertaking* below); or

(ii) invest in Sharia'a compliant investments as determined by the Managing Agent in its absolute discretion (**Investments**);

(g) credit, promptly after receipt, all revenues generated by the Ijara Assets and the Investments in the nature of profit (**Profit Revenues**) to the Profit Collections Account;

(h) use its reasonable endeavours to ensure the timely receipt of all Principal Revenues and Profit Revenues (together, the **Revenues**) and investigate non-payment of Revenues and generally make all reasonable efforts to collect or enforce the collection of such Revenues under the relevant contract as and when the same shall become due;

(i) obtain all necessary authorisations in connection with the Investments and any of the Sukuk Ijara Assets and its obligations under or in connection with the Management Agreement; and

(j) carry out any incidental matters relating to any of the above.

Customer Exercise

In the event that a lessee, pursuant to an Ijara Contract or other documentation relating to a Sukuk Ijara Asset, exercises a right requiring the transfer to such lessee of the Ijara Asset the subject of such Ijara Contract (a **Customer Exercise**), the Managing Agent shall, on receipt of the exercise price payable by such lessee (the **Customer Exercise Payment**):

(a) credit the principal component of the Customer Exercise Payment to the Principal Collections Account and the profit component (if any) of the Customer Exercise Payment to the Profit Collections Account; and

(b) transfer the relevant Ijara Asset to the lessee.

Distribution and Sharia'a Compliant Liquidity Facility

The Managing Agent shall, on the Business Day prior to each Periodic Distribution Date, apply amounts standing to the credit of the Profit Collections Account and, if required, the Reserve Account as follows:

(a) amounts standing to the credit of the Profit Collections Account shall:

  (i) **firstly** (to the extent necessary to pay the Periodic Distribution Amount due on such Periodic Distribution Date) be paid into the Transaction Account on such Business Day; and

(ii) **secondly** (to the extent any amount remains in the Profit Collections Account) be credited to the Reserve Account;

(b) amounts standing to the credit of the Reserve Account shall:

(i) **firstly** (to the extent necessary to pay the Periodic Distribution Amount due on such Periodic Distribution Date following the application of the Profit Collections Account in accordance (a) above) be paid into the Transaction Account on such Business Day;

(ii) **secondly** to repay any outstanding Shortfall Amounts owed by the Trustee to the Managing Agent; and

(iii) **thirdly** be used to pay the Managing Agent all or any due and payable claims, losses, costs and expenses properly incurred or suffered by the Managing Agent in providing the Services.

To the extent that, following the application by the Managing Agent of the monies standing to the credit of the Profit Collections Account and Reserve Account as set out above, the amount standing to the credit of the Transaction Account is less than the Periodic Distribution Amount due (such difference, the **Shortfall Amount**), the Managing Agent may provide to the the Trustee a Sharia'a compliant liquidity facility in respect of such Shortfall Amount. Any Shortfall Amounts advanced by the Managing Agent to the Trustee pursuant to this Clause shall be repayable by the Trustee on:

(a) each Periodic Distribution Date to the extent there are sufficient funds standing to the credit of the Reserve Account; and

(b) the Dissolution Date.

Investment Liquidation Amount

The Managing Agent irrevocably and unconditionally undertakes to the Trustee that it shall, on the Business Day prior to a Dissolution Date:

(a) procure the liquidation of all the Investments; and

(b) pay into the Transaction Account no later than close of business on such Business Day an amount in U.S. dollars (the **Investment Liquidation Amount**) equal to the aggregate Value of the Investments together with all return generated by and received by the Trustee in respect of by such Investments.

Tangibility

The Managing Agent agrees that it shall:

(a) use its best endeavours to ensure that at all times the ratio of (i) the aggregate Value of the Sukuk Ijara Assets owned by the Trustee to (ii) the aggregate Value of the Sukuk Ijara Assets owned by the Trustee and of all of the Investments (the **Tangibility Ratio**) is not less than 51 per cent; and

(b) ensure that at all times the aggregate Value of the Ijara Assets owned by the Trustee and the Investments is at least equal to the Aggregate Face Amount of the Certificates.

The Trustee has agreed that any failure by the Managing Agent to maintain the Tangibility Ratio in accordance with (a) above shall not constitute an Event of Default.

Insurance of Ijara Assets

The Managing Agent undertakes to the Trustee that it shall ensure that:

(a) each Sukuk Ijara Asset owned by the Trustee is insured at all times against total loss and expropriation in an amount at least equal to the Value of such Ijara Asset (the **Insurance Coverage Amount**), and that such insurance is maintained with a reputable insurer in good financial standing (having regard to the required Insurance Coverage Amount); and

(b) in the event of a total loss or expropriation of a Sukuk Ijara Asset, insurance proceeds in an amount equal to the Insurance Coverage Amount are paid to the Trustee, in U.S. dollars, by no later than close of business in Sharjah on the thirtieth (30th) day after the occurrence of the total loss or expropriation (and the Managing Agent shall ensure that the relevant insurer is directed accordingly).

If following a total loss or expropriation of a Sukuk Ijara Asset, the relevant insurance company fails to pay to the Principal Collections Account an amount equal to the Insurance Coverage Amount within 30 days of the occurrence of the total loss or expropriation, the Managing Agent shall (provided that such failure to make payment is due to the Managing Agent's failure to comply with its obligations under (a) and (b) above) indemnify the Trustee in respect of any shortfall by crediting such amount, together with the proceeds of insurance (if any), to the Principal Collections Account on the 31st day following the occurrence of the total loss or expropriation.

General

The Managing Agent shall perform its duties under the Management Agreement in accordance with all applicable laws and regulations and with the degree of skill and care that it would exercise in respect of its own assets.

SIB shall be entitled to receive a fee for acting as Managing Agent which will comprise a fixed basic fee of U.S.$100 and may also receive an incentive fee calculated as the amount standing to the credit of the Reserve Account following the redemption of all Certificates and the termination of the Trust.

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

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

Ijara Assets Sale Undertaking

The Ijara Assets Sale Undertaking will be executed by way of deed on the Closing Date by SIB (as Seller) in favour of the Trustee and the Managing Agent and will be governed by English law.

Pursuant to the Ijara Assets Sale Undertaking, the Trustee will be granted the right to require SIB to convey, sell and transfer, in certain circumstances, to the Trustee additional Ijara Assets.

The purchase price payable for each Ijara Asset shall be an amount equal to the Value of such Ijara Asset.

The right granted under the Ijara Assets Sale Undertaking may only be exercised by the Trustee (or the Managing Agent on behalf of the Trustee) if, and only to the extent that, SIB has available to it relevant Ijara Assets at its disposal for sale to the Trustee. Following the exercise of this right, the Managing Agent on behalf of the Trustee will either:

(a) pay the relevant purchase price to SIB; or

(b) where the exercise was owing to an Ijara Asset ceasing to meet the relevant eligibility criteria or becoming subject to an adverse claim or an event of default which has resulted in an acceleration, transferring such affected Ijara Asset to the Seller as in kind consideration,

and SIB will transfer the new Ijara Asset(s) to the Managing Agent (on behalf of the Trustee) to form part of the Trust Assets. SIB shall represent and warrant to the Trustee that each Ijara Asset transferred by the Seller to the Trustee pursuant to the Ijara Assets Sale Undertaking shall be an Eligible Ijara Asset.

The specific terms applicable to any sale of an Ijara Asset will be confirmed in a sale agreement to be executed by the Trustee and SIB on the date of the transfer. The form of such sale agreement will be appended to the Ijara Assets Sale Undertaking and will be governed by English law.

Any Ijara Assets purchased pursuant to the Ijara Assets Sale Undertaking will be managed by the Managing Agent in accordance with the provisions of the Management Agreement.

To the extent that:

(a) the sale and purchase or transfer of any ownership interest in an Ijara Asset pursuant to the Ijara Assets Sale Undertaking is not effective in any jurisdiction for any reason, SIB shall agree to make payment of an amount equal to the Value of such Ijara Asset by way of restitution to the Trustee immediately upon request and on receipt of such amount the Trustee shall immediately return such Ijara Asset to SIB;

(b) after the sale and purchase of an Ijara Asset pursuant to the Ijara Assets Sale Undertaking such Ijara Asset ceases to be:

    (i) an Eligible Ijara Asset (other than as a result of the non compliance with paragraph (e) of the definition of Eligible Ijara Asset);

    (ii) becomes subject to an event of default and SIB, as lessor, exercises its right to accelerate the obligations of the lessee under the associated Ijara Contract; or

    (iii) becomes subject to an adverse claim,

the Trustee shall be entitled to return to SIB such Ijara Asset and receive from SIB the refund of an amount in U.S. dollars equal to the Value of such Ijara Asset or one or more substitute Ijara Assets equal to the Value of such Ijara Asset in accordance with the terms of the Ijara Assets Sale Undertaking.

Purchase Undertaking

The Purchase Undertaking will be executed by way of deed on the Closing Date by SIB (as Obligor) in favour of the Trustee and the Delegate and will be governed by English law.

Exercise

SIB will irrevocably undertake in favour of the Trustee and the Delegate to purchase all of the Sukuk Ijara Assets together with all of the Trustee's rights, title, interests, ownership, benefits and entitlements in, to and under such Sukuk Ijara Assets on the Scheduled Dissolution Date or, as the case may be, the Dissolution Event Date. The price (the **Exercise Price**) payable by SIB shall be an amount equal to an amount in U.S. dollars equal to the aggregate of: (i) all unpaid and/or unamortised fixed rental instalments amounts payable by the lessees under the Ijara Contracts underlying the Sukuk Ijara Assets being sold by the Trustee; (ii) all due but unpaid Periodic

Distribution Amounts; and (iii) the Outstanding Shortfall Amount. Pursuant to the terms of the Purchase Undertaking, the Obligor shall be entitled to set off the Outstanding Shortfall Amount from its payment of the Exercise Price.

The specific terms applicable to such sale will be confirmed in a sale agreement, to be executed by the Trustee and SIB on the Scheduled Dissolution Date or, as the case may be, the Dissolution Event Date. The form of the sale agreement will be appended to the Purchase Undertaking and will be governed by English law.

Negative Pledge

SIB will undertake in the Purchase Undertaking that so long as any Certificate remains outstanding, it 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.

Events of Default

In addition, SIB will agree that each of the events or circumstances set out below is an **Event of Default**.

(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, 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 to maintain:

  (i) the Tangibility Ratio in accordance with clause 3.1(g)(i) of the Management Agreement; or

  (ii) insurance of the Sukuk Ijara Assets in accordance with clauses 3.2(a) and 3.2(b) of the Management Agreement,

  shall not constitute an Event of Default under this paragraph (b); 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 (A) the general readjustment or rescheduling of all or a material part of its debts, or (B) any deferment of any of its obligations or (C) 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 the 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 any 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.

General

SIB will undertake that, provided the Trustee or the Delegate have exercised their rights in accordance with the Purchase Undertaking and entered into a Sale Agreement and the Certificates have been redeemed in full in accordance with the Conditions, to the extent that the sale and purchase or transfer of any interest in a Sukuk Ijara Asset pursuant to the Purchase Undertaking is not effective in any jurisdiction for any reason, SIB shall not be entitled to claim restitution from the Trustee in respect of such Sukuk Ijara Asset.

SIB will undertake in the Purchase Undertaking that all payments by it under the Purchase Undertaking will be made without any deductions or withholding for or on account of tax unless required by law and without set-off or counterclaim and, in the event that there is any deduction or withholding, 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 deduction or withholding had been made.

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

Sale Undertaking

The Sale Undertaking will be executed as a deed on the Closing Date by the Trustee in favour of SIB and will be governed by English law.

Exercise for Taxation Reasons

Pursuant to the Sale Undertaking and subject to the Trustee being entitled to redeem the Certificates for tax reasons in accordance with Condition 6.2.2 (*Dissolution for Taxation Reasons*), SIB may, by exercising its right under the Sale Undertaking and serving notice on the Trustee not less than 30 and no later than 60 days prior to the Tax Dissolution Date, oblige the Trustee to convey, sell and transfer the Sukuk Ijara Assets together with all of the Trustee's rights, title, interests, ownership, benefits and entitlements in, to and under such Sukuk Ijara Assets to SIB on the Tax Dissolution Date.

The price (the **Exercise Price**) payable by SIB shall be an amount equal to an amount in U.S. dollars equal to the aggregate of: (i) all unpaid and/or unamortised fixed rental instalments amounts payable by the lessees under the Ijara Contracts underlying the Sukuk Ijara Assets being sold by the Trustee; (ii) all due but unpaid Periodic Distribution Amounts; and (iii) the Outstanding Shortfall Amount. Pursuant to the terms of the Sale Undertaking, SIB shall be entitled to set off the Outstanding Shortfall Amount from its payment of the Exercise Price. The specific terms applicable to the sale will be confirmed in a sale agreement, to be executed by the Trustee and SIB on the Tax Dissolution Date. The form of the sale agreement will be appended to the Sale Undertaking and will be governed by English law.

Exercise in respect of Cancellation

Where SIB has purchased Certificates and wishes to cancel those Certificates in accordance with Condition 9 (*Purchase of Certificates by SIB*) (such Certificates, the **Purchased Certificates**), SIB may deliver a cancellation notice (a **Cancellation Notice**) to the Trustee pursuant to the Sale Undertaking obliging the Trustee to cancel the Purchased Certificates and, as consideration for such cancellation, transfer to SIB a proportionate share of the Sukuk Ijara Assets and Investments with a Value equal to the face amount of such Purchased Certificates.

Costs Undertaking

The Costs Undertaking will be executed by way of deed on the Closing Date by SIB and will be governed by English law. Pursuant to the Costs Undertaking, SIB will pay certain fees and expenses of, and indemnify against certain losses of, among others, the Trustee, the Delegate and the Agents.

To the extent that any moneys standing to the credit of the Transaction Account are paid to either the Delegate or the Trustee as contemplated by Condition 4.2 (*Application of Proceeds from Trust Assets*) (the amounts so applied, the **Relevant Amount**), then the Certificateholders shall be deemed to be a Trustee Third Party for the purposes of the Costs Undertaking provided always that their claim under the Costs Undertaking shall be limited to the Relevant Amount.

Definitions

Eligible Ijara Asset means an Ijara Asset:

(a) which has been originated by SIB or in which SIB has an ownership interest that is in a manner consistent with the usual credit and origination policies of SIB;

(b) which relates to a non-real estate moveable asset;

(c) which, subject to any general principles of law limiting the obligations of the lessee, constitutes legal, valid, binding and enforceable obligations of the lessee in respect of the Ijara Contract underlying such Ijara Asset;

(d) in respect of which SIB is entitled to receive payments due to it in respect of the Ijara Contract underlying such Ijara Asset;

(e) in respect of which there has not occurred any event of default, potential event of default or analogous event which is subsisting; and

(f) in respect of which its ownership interest is capable of being transferred to the Trustee by SIB in accordance with the terms of the relevant agreement.

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 borrower money or liability arising under or in respect of any acceptance or acceptance credit or evidenced by any notes, bonds, debentures, debenture stock, loan stock or other securities or any moneys raised under any transaction having the commercial effect of borrowing or raising money.

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.

For the purposes of this definition:

(i) for the purpose of determination of the thresholds set forth in paragraphs (a) and (b) above at any given time, the assets and revenues of the relevant Subsidiary will be determined from the then latest available (if applicable, consolidated) annual or semi-annual financial statements, as the case may be, of such relevant Subsidiary, and the consolidated total assets and consolidated net operating revenues of SIB will be determined from the then latest available annual or semi-annual financial statements, as the case may be, of SIB; and

(ii) upon a Material Subsidiary transferring all or substantially all of its assets to another Subsidiary, the transferor shall cease to be a Material Subsidiary on the effective date of such transfer and thereupon the transferee shall be deemed to be a Material Subsidiary until the next date of determination of the thresholds set forth in paragraphs (a) and (b) above with respect to such Subsidiary.

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.

Outstanding Shortfall Amount means, on any day, the aggregate of all Shortfall Amounts advanced by way of Sharia'a compliant liquidity facility by the Managing Agent under the Management Agreement which have not been repaid by the Trustee in accordance with the provisions of the Management Agreement.

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.

Value means, at any time, an amount in U.S.$ equal to:

(a) in the case of an Ijara Asset, the aggregate of all unpaid and/or unamortised fixed rental instalment amounts payable by the lessee pursuant to the Ijara Contract underlying such Ijara Asset; and

(b) in the case of an Investment, the aggregate amount invested by SIB in such Investment.

TAXATION

The following is a general description of certain tax considerations relating to the Certificates. It does not purport to be a complete analysis of all tax considerations relating to the Certificates. Prospective purchasers of 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 Certificates and receiving payments of profit, principal and/or other amounts under the Certificates. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

United Arab Emirates

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

There is currently in force in Sharjah legislation establishing 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 on debt securities (including Periodic Distribution Amounts or the Dissolution Amount in relation to the Certificates).

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

The UAE has entered into Double Taxation Arrangements with certain other countries, but these are not extensive in number.

Cayman Islands

Under existing Cayman Islands laws, payments on the Certificates will not be subject to taxation in the Cayman Islands and no withholding will be required on the payments to any holder of the Certificates, nor will gains derived from the disposal of the Certificates be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance or gift tax.

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of present legislation. No capital or stamp duties are levied in the Cayman Islands on the issue or redemption of Certificates. An instrument of transfer in respect of a Certificate may be stampable if executed in or brought to the Cayman Islands. An annual registration fee is payable by the Trustee to the Cayman Islands Registry 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.$731.71.

The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

EU Savings Directive

Under the EC Council Directive 2003/48/EC (the **Directive**) Member States are required to provide to the tax authorities of another, or collected by such a person for, Member State details of payments of interest (or similar income) 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, subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest (or similar income) may request that no tax be withheld (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 certain dependent or associated territories of certain Member States have adopted similar measures (either a provision of information or a withholding system in relation to payments made by a person within its jurisdiction to, or collected by such person for, an individual resident or certain limited types of entity established in a Member State).

On 15 September 2008, the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008, the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of the proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

SUBSCRIPTION AND SALE

Under the terms and conditions contained in a Subscription Agreement (the **Subscription Agreement**) dated 23 May 2011 between the Trustee, SIB, HSBC Bank plc, Standard Chartered Bank and Liquidity Management House for Investment Co. K.S.C.C. (the **Joint Lead Managers**) and Qatar Islamic Bank SAQ, Abu Dhabi Islamic Bank PJSC, Qatar First Investment Bank LLC, Dubai Islamic Bank PJSC and Al Hilal Bank PJSC (the **Co-Lead Managers**, and together with the Joint Lead Managers, the **Managers**), the Trustee has agreed to issue and sell to the Managers U.S.$400,000,000 in aggregate face amount of the Certificates and, subject to certain conditions, the Managers have agreed to subscribe for the Certificates. The Subscription Agreement provides that the obligations of the Managers to pay for and accept delivery of the Certificates are subject to certain conditions. Pursuant to the Subscription Agreement, the Managers will be paid certain commissions in respect of their services for managing the issue and sale of the Certificates. The Managers will also be reimbursed in respect of certain of their expenses, and each of the Trustee and SIB has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Certificates.

Selling Restrictions

United States

The Certificates have not been and will not be registered under the Securities Act and, may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Certificates are being offered and sold only outside the United States to persons other than U.S. persons as defined in Regulation S in offshore transactions in reliance on, and in compliance with, Regulation S.

Each Manager has agreed that it will offer and sell, the Certificates: (a) as part of its distribution at any time; and (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, only in accordance with Rule 903 of Regulation S.

Each Manager has agreed that, at or prior to confirmation of sale of Certificates, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Certificates from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the Securities Act), and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons: (i) as part of their distribution at any time; or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meaning given to them by Regulation S under the Securities Act."

United Kingdom

Each Manager has represented and agreed that:

(a) 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 Certificate in circumstances in which section 21(1) of the FSMA does not apply to the Trustee; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Certificates in, from or otherwise involving the United Kingdom.

Hong Kong

Each Manager has represented and agreed 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, 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 the 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.

Kingdom of Bahrain

Each Manager has represented and agreed that it has not offered, and will not offer, Certificates to: (i) the public (as defined in Articles 142-146 of the Commercial Companies Law (Decree Law No. 21/2001) of Bahrain); or (ii) any person in Bahrain who is not 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; or

(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 statepension fund).

Cayman Islands

Each Manager has represented and agreed 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.

Malaysia

This 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). Accordingly, each Manager has represented and agreed that the Certificates have not been and will not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under (i) Schedule 6 (or Section 229(1)(b)) or Schedule 7 (or Section 230(1)(b)) and (ii) 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.

Prospective investors should note that 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 Managers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

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 an offering should note that the offer of Certificates is an "offer restricted to sophisticated Investors" (as defined in Article 10 of the "Offer of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the **KSA Regulations**) for the purposes of Article 9 of the KSA Regulations. Each Manager has represented and agreed that the offer of the Certificates will only be directed at Sophisticated Investors (as defined in Article 10 of the KSA Regulations).

The 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 as a Sophisticated Investor 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.

Singapore

This 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 **Securities and Futures Act**). Accordingly, each Manager has represented and agreed that it has not offered or sold and 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 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: (i) to an institutional investor pursuant to Section 274 of the Securities and Futures Act; (ii) to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act; or (iii) pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Manager has represented and agreed that the Certificates 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.

Each Manager has acknowledged, that the information contained in this Prospectus does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law 8 of 1984 (as amended)) or otherwise and is not intended to be a public offer and the information contained in this Prospectus is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

Dubai International Financial Centre

Each Manager has represented and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

(a) an "Exempt Offer" in accordance with the Offered Securities Rules 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.

General

Each Manager has agreed that it will, to the best of its knowledge and belief, comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the Certificates or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of the 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, the Delegate and any of the Managers shall have any responsibility therefore.

None of the Trustee, SIB, the Delegate or any of the Managers represents that the 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 Prospectus or any Certificates may come must inform themselves about, and observe, any applicable restrictions on the distribution of this Prospectus and the offering and sale of the Certificates.

GENERAL INFORMATION

Authorisation

The issue of the Certificates has been duly authorised by a resolution of the Board of Directors of the Trustee dated 19 May 2011. The Trustee has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Certificates and the execution and performance of the Transaction Documents to which it is a party. The entry into the Transaction Documents to which it is a party has been duly authorised by a resolution of the Board of Directors of SIB on 31 October 2010.

Listing

Application has been made to the UK Listing Authority for the Certificates to be admitted to the Official List and to the London Stock Exchange for such Certificates to be admitted to trading on the London Stock Exchange's regulated market. The listing of the Certificates is expected to be granted on or before 26 May 2011.

Documents Available

For so long as any Certificates remain outstanding, copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the registered office of the Trustee and the specified London office of the Paying Agent:

(a) the Transaction Documents;

(b) the Memorandum and Articles of Association of the Trustee;

(c) the Memorandum and Articles of Association of SIB;

(d) the consolidated audited financial statements of SIB in respect of the financial years ended 31 December 2010 and 31 December 2009, in each case together with any audit reports prepared in connection therewith;

(e) the most recently published audited annual consolidated financial statements of SIB and the most recently published reviewed interim consolidated financial statements of SIB, in each case together with any audit reports prepared in connection therewith; and

(f) the Prospectus.

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 ISIN for the Certificates is XS0625554836. The Common Code for the Certificates is 062555483.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

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 prospects of the Trustee, in each case, since the date of its incorporation.

Since 31 December 2010 there has been no significant change in the financial or trading position of SIB and its subsidiaries taken as a whole and no material adverse change in the prospects of SIB and its subsidiaries taken as a whole.

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 document which may have or have in such period had a significant effect on the financial position or profitability of the Trustee.

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.

Auditors

The first financial period of the Trustee will end on 31 December 2011. The Trustee has no subsidiaries. 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, independent chartered accountants, who have audited SIB's accounts, without qualification, in accordance with IFRS ,guidance of the UAE Central Bank, Islamic Sharia'a principles and applicable requirements of the UAE, for each of the two financial years ended on 31 December 2010 and 31 December 2009. The auditors have no material interest in SIB.

Expenses

The expenses relating to the admission to trading of the Certificates on the London Stock Exchange's regulated market are expected to amount to £4,200.

Sharia'a Advisory Board

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by Dar Al Sharia, SIB's Sharia'a Committee, HSBC's Central Shariah Committee and Sharia'a Supervisory Board of Standard Chartered Bank. Prospective Certificateholders should not rely on the approvals referred to above in deciding whether to make an investment in the Certificates and should consult their own Sharia'a advisers as to whether the proposed transaction described in the approval referred to above is in compliance with Sharia'a principles.

Managers transacting with SIB

Certain of the Managers 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.

APPENDIX 1 – FINANCIAL STATEMENTS

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SHARJAH ISLAMIC BANK

DIRECTOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS AS AT 31ST DECEMBER 2009

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 31st December 2009.

Financial Highlights

The Bank has reported a net profit before distribution to depositors of AED 564.0 million for the year, which represents a 22.7% increase over 2008 of AED 459.7 million, while net profit after distribution to depositors amounting to AED 260.1 million, which represents a 12.3% increase over 2008 results of AED 231.6 million.

The total assets of the Bank increased by AED 438.7 million to AED 16.0 billion representing an increase of 2.8%.

The Directors propose to the Shareholders a cash dividend of 10% of the par value of share (AED 0.10 per share) amounting to AED 231.0 million with nil bonus share. (compared to a 1 bonus share for every 20 shares for 2008 amounting to AED 110.0 million and cash dividend of AED 110.0 million (AED 0.05 per share)

The Directors propose the following appropriations for 2009 :-

	AED million
1) Proposed cash dividend	231.0
2) Zakat	46.0
3) Proposed Directors' fees	2.7
Total	279.7

After carrying forward the retained earnings from last year and the above proposed appropriations, total shareholders funds will amount to AED 4.03 billion.

Directors:-

H.H. Shaikh Sultan Bin Mohammed Bin Sultan Al Qassimi	Chairman
Mr. Mohammed Saeed Al Husseiny	Vice Chairman
H.E. Abdul Rahman Mohammed Nasser Al Owais	Member
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 2009 at the Annual General Meeting held on 21st March 2009.

On behalf of the board

Sultan Bin Mohammed Bin Sultan Al Qassimi
Chairman
25th January 2010

P O Box 28653
2002, Al Batha Tower
Buhaira Corniche
Sharjah
United Arab Emirates

Telephone +971 (6) 517 0700
Fax +971 (6) 572 3773
Website 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 2009, and the consolidated statement of comprehensive income (comprising a consolidated statement of comprehensive income and a separate consolidated statement of income), changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of 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 financial position of the Group as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of Association of the Bank 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 2009, which may have had a material adverse effect on the business of the Group or its financial position.

KPMG

Munther Dajani
Registration No:268
2 5 JAN 2010

SHARJAH ISLAMIC BANK

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31ST DECEMBER 2009

(Currency: Thousands of U.A.E. Dirhams)

	Notes	2009	2008
Assets:			
Cash and balances with banks and financial institutions	6	1,419,663	1,172,039
International Murabaha and Wakalah with financial institutions	7	1,762,707	1,410,846
Financing receivables	8	2,619,361	3,680,684
Leased assets	9	7,402,327	6,523,133
Investments securities	11	521,758	601,038
Investment properties	12	156,636	34,957
Properties held for sale	13	1,008,613	1,005,705
Other assets	14	353,899	303,958
Property and equipment	15	729,584	803,520
Total Assets		**15,974,548**	**15,535,880**
Liabilities:			
Customers' deposits	16	9,860,321	9,069,036
Due to banks	17	643,656	1,002,735
Sukuk payable	18	825,094	824,319
Other liabilities	19	335,125	435,528
Accrued Zakat		46,041	42,326
Total Liabilities		**11,710,237**	**11,373,944**
Shareholders' Equity:			
Share capital	20	2,310,000	2,200,000
Legal reserve	23	1,443,117	1,551,843
Statutory reserve	23	89,008	89,008
Revaluation reserve	23	883	802
Retained earnings		421,303	320,283
Total Shareholders' Equity:		**4,264,311**	**4,161,936**
Total Liabilities and Shareholders' Equity		**15,974,548**	**15,535,880**
Contingent Liabilities:			
Letters of credit	31	70,178	166,443
Letters of guarantee	31	659,218	894,088
		729,396	1,060,531

The consolidated financial statements were authorized for issue in accordance with a resolution of the Directors on 25th January 2010.

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.

SHARJAH ISLAMIC BANK
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2009
(Currency: Thousands of U.A.E. Dirhams)

	Notes	2009	2008
Income from Murabaha and leasing		749,911	666,341
Profit paid Sukuk		(14,417)	(37,147)
Fees, commission and other income	24	147,170	310,984
Total income		882,664	940,178
General and administrative expenses	25	(284,445)	(278,889)
Net operating income		598,219	661,289
Provisions - net of recoveries	26	(34,236)	(201,601)
Net profit before distribution to depositors		563,983	459,688
Distribution to depositors	27	(303,848)	(228,109)
Net profit for the year (attributable to the equity holders of the Banks)		260,135	231,579
Basic and diluted earnings per share (U.A.E. Dirhams)	28	0.11	0.10

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

SHARJAH ISLAMIC BANK

CONSOLIDATED STATEMENT OF COMPERHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER 2009

(Currency: Thousands of U.A.E. Dirhams)

	2009	2008
Net profit for the year	**260,135**	231,579
Other comprehensive income		
Net change in Fair value reserve	**81**	(35,454)
Total comprehensive income for the year **(attributable to the equity holders of the Bank)**	**260,216**	196,125

The accompanying notes form an integral part of these condensed consolidated interim financial statement

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER 2009
(Currency: Thousands of U.A.E. Dirhams)

	2009	2008
Cash flows from operating activities:		
Net profit for the year	**260,135**	**231,579**
Adjustments:		
Depreciation	22,620	17,871
Amortization of sukuk issuance cost	775	749
Provision of customer receivables	54,975	17,990
Revaluation gains on investment properties	-	(4,070)
Revaluation loss on properties held for sale	-	12,443
Provision for impairment on investments available-for-sale	12,436	67,288
Effect of change in accounting policy	-	24,480
Board of Directors' fees paid	(1,800)	(2,700)
Operating profit before changes in operating assets and liabilities	**349,141**	**365,630**
Changes in operating assets and liabilities:		
Change in reserve with Central Bank	85,367	(231,460)
Change in international Murabaha and Wakalah with financial institution	-	62,441
Change in loans and advances	-	3,730
Change in financing receivables	1,007,716	(1,926,819)
Change in leased assets	(880,562)	(1,795,419)
Change in other assets, net	(49,941)	(52,800)
Change in customers' deposits	791,285	2,091,986
Change in due to banks	(359,079)	574,523
Change in other liabilities	(142,730)	7,207
Net cash provided by / (used in) operating activities	**801,197**	**(900,981)**
Cash flows from investing activities:		
Properties and equipment	51,316	(190,101)
Investments proprieties – net	(121,679)	13,978
Acquisition of properties held for sale – net	(2,908)	(629,460)
Investments securities – net	66,925	(133,428)
Net cash used in investing activities	**(6,346)**	**(939,011)**
Cash flows from financing activities:		
Subscription of new shares	-	1,760,000
Cash dividends– paid	(110,000)	-
Net cash (used in) / provided by financing activities	**(110,000)**	**1,760,000**
Net increase in cash and cash equivalents	**684,851**	**(79,992)**
Cash and cash equivalents, beginning of the year (note 29)	**1,923,122**	**2,003,114**
Cash and cash equivalents, end of year (note 29)	**2,607,973**	**1,923,122**

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

SHARJAH ISLAMIC BANK
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER, 2009
(Currency: Thousands of U.A.E. Dirhams)

	Share capital	Legal & statutory reserves	Fair value reserve	Retained earnings	Total
Balance as at 1 Jan 2008	1,100,000	760,851	36,256	329,250	2,226,357
Effect of change in accounting policy	-	-	-	24,480	24,480
Issue of bonus shares	220,000	-	-	(220,000)	-
Issue of Right Issue	880,000	880,000	-	-	1,760,000
Board of directors' fees – paid	-	-	-	(2,700)	(2,700)
Zakat Payable	-	-	-	(42,326)	(42,326)
Total comprehensive income for the year	-	-	(35,454)	231,579	196,125
As at 31 December 2008	**2,200,000**	**1,640,851**	**802**	**320,283**	**4,161,936**
Balance as at 1 January 2009	2,200,000	1,640,851	802	320,283	4,161,936
Cash dividends paid	-	-	-	(110,000)	(110,000)
Issue of bonus shares	110,000	(110,000)	-	-	-
Transfer to legal reserve	-	1,274	-	(1,274)	-
Zakat Payable	-	-	-	(46,041)	(46,041)
Board of directors' fees - paid	-	-	-	(1,800)	(1,800)
Total comprehensive income for the year	-	-	81	260,135	260,216
As at 31 December 2009	**2,310,000**	**1,532,125**	**883**	421,303	**4,264,311**

In accordance with the Ministry of Economy & Commerce interpretation of Article 118 of Commercial Companies 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.

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 Central Bank of UAE (CBUAE), which are carried out through its branches established in United Arab Emirates.

At the extraordinary shareholders' meeting held on 18th 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 30th 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 30th 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 Bank comprise the Bank and its fully owned subsidiaries incorporated in United Arab Emirates, Sharjah National Hotels (SNH), Sharjah Islamic Financial Service (SIFS) and Contact Marketing (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 provide certain support services to the Bank.

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 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:

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 finalization and review of accounting and financial disclosures. In addition the consolidated financial statements are subject to a quarterly review and year end 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 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

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"), guidance of the CBUAE , Islamic Shari'a principles and applicable requirements of the laws in UAE.

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 instruments at fair value through profit and loss

ii) available-for-sale financial assets

iii) investment property

c. Functional and reporting currency

These consolidated financial statements have been prepared in UAE Dirhams (AED), which is the Group's functional currency, rounded to the nearest thousand. The accompanying consolidated financial statements represent the consolidated financial statements of the Group after elimination of material inter group transactions.

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 and leased assets, impairment of available-for-sale equity investments, held to maturity investments, provisions for doubtful debts and slow moving inventories.

e. Changes in accounting policies

Overview

Effective 1 January 2009 the Group has changed its accounting policies in the following areas:

- Determination and presentation of operating segments
- Presentation of the consolidated financial statements
- Disclosures pertaining to fair values and liquidity risk for financial instruments

Determination and presentation of operating segment

The Group determines and presents operating segments based on the information that internally is provided to the Group Management Committee, which is the Group's chief operating decision maker. The accounting policy in respect of operating segment disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of this standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group Management Committee to make decision about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Group Management Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily Group's headquarters), head office expenses and liabilities.

3. **Basis of preparation (continued):**

Presentation of consolidated financial statements

The Group applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1st January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

Disclosures pertaining to fair values and liquidity risk for financial instruments

The Group has applied improving Disclosures about Financial Instruments (amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments requires that the fair value measurements disclosures use three fair value hierchy that reflects the significance of the inputs used in measuring fair values of the financial instruments. Specific disclosures are required when the fair value measurements are categorized as level 3 (significant unobservable inputs) in the fair value hierchy. The amendments require that any significant transfers between Level 1 and Level 2 to the fair value hierchy be disclosed separately, distinguishing between transfers into and out of each level.

Further the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The amendments require disclosure of a maturity analysis for non-derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments requires the maximum amount the guarantees to be disclosed in the earliest period in which the guarantee could be called.

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 years presented except stated in note 2(e).

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.

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 statement of the 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. **Classification**

The Bank's classification of financial assets include the following categories: financing receivables, leased assets ("Ijarah"), loans and advances, held-to-maturity investments, financial assets at fair value through profit or loss and available-for-sale financial assets. Management determines the classification of investment at initial recognition.

Financial assets are categorized as follows:

Financing receivables

Financing receivables are non derivative financial assets with fixed or determinable payment that are not quoted in the market. 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 amortized 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.

Loans and advances

Loans and advances originated by the Bank are classified as originated loans and advances. These are reported net of impairment provisions to reflect the estimated recoverable amounts.

This product has been discontinued since the Bank transformed to an Islamic Bank and the remaining balance represents mainly non-performing loans and advances. Profit accrued after transformation date is not recognized in the consolidated income statement.

Held-to-maturity investments

Held-to maturity investments 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, were the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale.

Investments at fair value through profit and loss

An investment is 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 investments

Available-for-sale investments are non derivative investments that are not designated as another category of financial assets. Available-for-sale investments are carried at fair value.

ii. **Recognition of financial instruments**

The Bank recognizes held-to-maturity, investments at fair value through profit and loss and available-for-sale financial assets on the trade date on which the Bank commits to purchase the asset. Financing receivables and leased assets ("Ijarah") are recognized when cash is advanced.

Financial Liabilities are recognized on the date that the Bank becomes a party to the contractual provisions of the instrument.

iii. Fair value measurement principles

Fair value of investments at fair value through profit and loss and available-for-sale investments is based on quoted market price at the balance sheet 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.

Unquoted investments whose fair value can not be reliably measured are carried at cost less any impairment losses.

iv. Measurement of financial instruments

The Bank measures all financial instruments initially at cost, including transaction costs.

Subsequent to the initial recognition, investments at fair value through profit and loss and available-for-sale financial assets are stated at their fair value. All other financial instruments are measured at amortized cost less impairment loss, if appropriate.

v. Gains and losses on subsequent measurement

Gains and losses arising in the fair value of investments at fair value through profit and loss are recognized in the income statement.

Gains and losses arising in the fair value of available-for-sale investments are recognized in statement of comprehensive income, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in other comprehensive income is recognized in the income statement.

vi. Impairment

Financial assets are reviewed at each balance sheet 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 recognized in the income statement. 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 directly through equity.

The recoverable amount of any equity instrument is its fair value. Where an asset measured to fair value directly through equity is impaired, and an increase in the fair value of the asset was previously recognized in equity, the increase in fair value of the asset recognized in equity is reversed to the extent the asset is impaired. Any additional impairment loss is recognized in the income statement.

c. Investment property

Investment property is 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 recognized in the income statement. Further the management assessed the fair values of investment properties internally to reflects 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 recognized in the income statement 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.

e. Revenue recognition

Income arising from financial receivables is recognized on effective rate of return method.

Income from Murabaha is recognized on a time apportionment basis, until such time as a reasonable doubt exists with regards to its collectibility.

Income from leased assets is recognized on a declining value basis, until such time as a reasonable doubt exists with regards to its collectibility.

e. Revenue recognition (continued)

Fees and commission income are accounted from the date of the transaction when the service has been provided by the Bank, giving rise to that income.

Rental income from investment property is recognized in the income statement on a straight-line basis over the term of the lease.

Dividends Income is recognized in the income statement when the Bank's right to receive income is established. Usually this is the ex-dividend date for equity security.

For Sharjah National Hotels, revenue from provision of accommodation, food, beverages and other services is recognized on an accrual basis as the services are rendered. Revenue from brokerage business (commission) is recognized on an accrual basis.

For Sharjah Islamic Financial Services, commissions are accounted for on the completion of the brokerage deal.

It is calculated in according with the rates fixed stated by Dubai Security Market and Abu Dhabi Security market.

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 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 balance sheet 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 recognized in the income statement. Foreign currency arising on translation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognized directly in equity.

h. Trade and other receivables

Trade and other receivables are stated at amortized cost net of provision for impartment, if any.

i. Other financial liabilities

These 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 profit method.

j. Provisions

A provisions is recognized if, a result of a past event, the Bank 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. Provision 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 compliance with Sharia'a rules as follows :

- Net gains on all items of income and expenses at the end of each month is the net profit distributable between the shareholders and the holders with unrestricted investment deposit.
- The share of the holders with 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.

4. **Summary of significant accounting policies (continued):**

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 balance sheet 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 recognized in the statement of income.

m. Property and equipment

Property and equipment are stated at cost less accumulated depreciation. 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, current accounts with other banks and financial institutions, and short term international Murabaha and wakalah with residual maturity up to three months from the balance sheet date.

o. 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 income statement, 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.

Impairment of available for-sale equity investments

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

Held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank sells or reclassifies other than for specific circumstances more than insignificant amount before maturity it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

4. Summary of significant accounting policies (continued):

Valuation of financial instruments

The Group's accounting policy on fair value measurements is discussed in accounting policy.

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.

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 recognized 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 2009					
Financial assets					
Investment securities	11	50,190	-	284,796	334,986
		50,190	-	284,796	334,986
Financial liabilities					
Sukuk payable	18	825,094	-	-	825,094
		825,094	-	-	825,094

4. **Summary of significant accounting policies (continued):**

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:

	2009
Balance as at 1 January	309,357
Total gains or losses:	
in profit or loss	(4,630)
in other comprehensive income	(5,282)
Purchases	-
Disposals	(14,649)
Transfers into Level 3/ (Transfers out of Level 3)	-
Balance at 31 December	284,796

p. Trade and other payables

Trade and other payables are stated at cost. Liabilities are recognized for amounts to be paid in the future for goods or services received, whether or not billed.

q. 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 financial statements, as they are not assets of the Bank.

r. 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.

s. 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.

t. 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 2009, and have not been applied in preparing these consolidated financial statements:

IFRS - 1 (Revised) - First-time Adoption of International Financial Reporting Standards:
IFRS - 3 (Revised) - Business Combinations:
IFRS - 5 (Amended) - Non-current Assets Held for Sale and Discontinued Operations:
IFRS - 9 Financial Instruments:
IAS - 24 (Revised) - Related Party Disclosures:
IAS - 27 (Amended) - Consolidated and Separate Financial Statements
IAS - 32 (Amended) - Financial Instruments Presentation and Disclosure
IAS - 39 (Amended) - Financial Instrument.

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 two 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 Group's senior executive management assuring that the Group meets its strategic and operational objectives. EC consists of four Board Directors.

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
- Reviewing the internal audit reports and monitors control issues of major significance of the Group.

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, administrative and 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:

- Reviewing the Group's IT development, strategic opportunities and plans
- Providing guidance in the prioritization 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.

5. Risk management (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, 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 includes 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
    - 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
    - The risk from material changes in global and domestic economic conditions generally; and
- Oversee the installation and maintenance of an information system that supplies, on a timely basis, the information and data necessary for the ALCO to fulfill its roles and responsibilities.

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
- 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 Audit Committee or Senior Management.

5. **Risk management (continued):**

It is led by the Head of Internal Audit who reports to the Audit Committee of the Board of Directors, with administrative reporting to the Chief Executive Officer.

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
- 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
- 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
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 analyze 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.

5. 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, international Murabaha, Wakalah with financial institution and investments.

The Group manage its credit risk exposure through diversification of its financing activities, investments and capital markets 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.

Exposure to credit risk

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. The tables below set out the concentration of credit risk by sector, geography and currency. In these tables, on balance sheet includes exposure to trading equities and other assets, however, acceptances have been included under off balance sheet in order to make it in line with Basel II requirements as set out in note 5 (f) of these financial statements. All undrawn commitments as at the reporting date are unconditionally revocable.

Concentration of credit risk by industrial sector for financing activities refer to notes 8b and 9b.

The geographical distribution of due from banks, international Murabaha and Wakalah with financial institutions is set out in note 6 and 7.

Credit risk arising from commitments and contingencies is discussed in note 31.

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.

	Bank and financial institution		Investment Securities		Financing receivable and Leased Assets		Loans and advances	
	2009	2008	2009	2008	2009	2008	2009	2008
Carrying amount	2,392,763	1,254,098	521,758	601,038	10,021,688	10,203,817	-	-
Individually impaired								
Substandard	-	-	-	-	37,855	73,554	26	169
Doubtful	-	-	-	-	104,947	29,961	9,726	9,669
Loss	-	-	-	-	2,495	2,495	229,306	240,521
Gross amount	-		-		145,297	106,010	239,058	250,359
Profit in suspense	-	-	-	-	(3,587)	(5,326)	(77,779)	(86,245)
Specific allowance for impairment	-	-	-	-	(89,693)	(42,573)	(161,273)	(164,108)
Total	-	-	-	-	52,017	58,111	6	6
Neither past due nor impaired	2,392,763	1,254,098	607,847	687,096	10,007,237	10,187,612	-	-
Collective allowance for impairment	-	-	(86,089)	(86,058)	(37,566)	(41,906)	(6)	(6)
Carrying amount	2,392,763	1,254,098	521,758	601,038	10,021,688	10,203,817	-	-
Includes accounts with renegotiated terms	-	-	-	-	732,725	884,956	-	-

Bank and financial institution exclude cash in hand and cash reserve deposits with the CBUAE.

Impairment of financial Assets

Financial assets are reviewed at each balance sheet 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.

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.

b. Liquidity risk

Liquidity risk arises in general funding of the Group's activities and the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including customer deposits, bank deposits, international Murabaha and capital. The management monitors the maturity profiles to ensure that adequate liquidity is maintained. This enhances funding flexibility and limits dependence on any one source of funds.

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.

The Group maintains a portfolio of short-term liquid assets to manage the liquidity risk, the maturity profile of the assets and liabilities of the Bank is set out in the below table.

All liquidity policies and procedures are subject to review and approval by Assets and Liabilities Committee.

Exposure to liquidity risk

The Group's contractual maturities of assets and liabilities 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 assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The maturity profile of the assets and liabilities at 31 December 2009 was as follows:

	Less than 3 months	3 months to 1 year	1-5 Year	Over 5 Year	Tota
Assets					
Cash and balances with banks and financial institutions	1,382,736	34,379	1,137	1,411	1,419,
International Murabaha/Wakalah	1,762,707	-	-	-	1,762,
Financing receivables	702,695	179,090	981,341	756,235	2,619,
Leased assets	173,363	677,987	2,326,091	4,224,886	7,402,
Loans and advances - net	-	-	-	-	
Investments securities	18,892	76,644	296,654	129,568	521,
	4,040,393	968,100	3,605,223	5,112,100	13,725,
Liabilities and equity					
Customers' deposits	6,167,569	3,437,866	113,748	141,138	9,860,
Due to banks	643,656	-	-	-	643,
Sukuk payable	-	-	825,094	-	825,
Other liabilities and Zakat	238,099	-	143,067	-	381,
	7,049,324	3,437,866	1,081,909	141,138	11,710,

The maturity profile of the assets and liabilities at 31 December 2008 was as follows:

	Less than 3 months	3 months to 1 year	1-5 Year	Over 5 Year	Tota
Assets					
Cash and balances with banks and financial institutions	1,146,151	25,888	-	-	1,172
International Murabaha/Wakalah	1,410,846	-	-	-	1,410
Financing receivables	942,712	594,251	1,649,916	493,805	3,680
Leased assets	187,830	316,591	3,817,797	2,200,915	6,523
Loans and advances - net	-	-	-	-	
Investments securities	13,890	86,521	220,234	280,393	601
	3,701,429	1,023,251	5,687,947	2,975,113	13,387
Liabilities and equity					
Customers' deposits	6,480,195	2,588,841	-	-	9,069
Due to banks	998,717	4,018	-	-	1,002
Sukuk payable	-	-	824,319	-	824
Other liabilities and Zakat	408,824	-	69,030	-	477
	7,887,736	2,592,859	893,349	-	11,373

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.

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 Group's Assets and Liabilities Committee.

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:

	Net position	
Currency	**2009**	**2008**
US dollar	(47,846)	(391,691)
Sterling pound	130	(51)
Euro	(74)	248
Bahrani Dinar	6,702	7,390
Qatari Riyal	397	1,271
Saudi Riyals	1,663	808
Kuwaiti Dinar	42,063	42,129
Omani Riyal	26,390	26,397

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 investments. The Group manages this risk through diversification of investment in terms of geographical distribution and industry concentration.

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 recognized and the Group recognizes 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.

5. Risk management (continued):

The Group's regulatory capital adequacy ratio is set by the Central Bank of UAE ('the Central Bank' or 'CBUAE'). The Group and its subsidiary have 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 by 2011 and 2016 respectively. The Group have complied with all externally imposed capital requirements throughout the year. There have been no material changes in the Group's management of capital during the year, except that during the year, the Central Bank 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 analyzed 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 unrealized gains / losses on investments classified as available-for-sale 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.

The table below summarizes the composition of regulatory capital of the Group:

	Basel II		Basel I	
	2009	2008	2009	2008
Tier 1 capital				
Ordinary share capital	2,310,000	2,200,000	2,310,000	2,200,000
Retained earnings	208,483	131,027	208,483	131,028
Statutory and special reserve	89,008	89,008	89,008	89,008
Legal Reserve	1,441,841	1,551,842	1,441,841	1,551,843
Total tier 1 capital base	**4,049,332**	3,971,877	**4,049,332**	**3,971,879**
Tier 2 capital				
Fair value reserve	397	362	883	802
Collective impairment provisions	37,566	41,912	-	-
Total tier 2 capital base	**37,963**	42,274	**883**	802
Total capital base (a)	**4,087,295**	4,014,151	**4,050,215**	3,972,681
Risk weighted assets:				
On balance sheet	**16,372,413**	15,897,817	16,002,462	15,557,600
Off balance sheet	**775,341**	680,920	300,185	490,547
Credit risk	**10,679,111**	10,394,585	9,652,365	10,186,023
Market risk	**45,583**	434,100	-	-
Operational risk	**1,131,476**	981,968	-	-
Risk weighted assets	**11,856,170**	**11,810653**	**9,652,365**	**10,186,023**
Tier 1 ratio	**34.15%**	**33.63%**	**41.95%**	**38.99%**
Capital adequacy **ratio**	**34.47%**	**33.99%**	**41.96%**	**39.00%**

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 Central Bank of UAE 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.

5. **Risk management (continued):**

Claims on public sector entities (PSEs)

Domestic currency claims on GCC non commercial PSE were treated as claims on GGC sovereign if their Central Bank or monetary authority treats them as such. Foreign currency claims on GCC PSE were treated one grade less favourable 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%.

Capital resources and adequacy

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 ECAIs. 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 Central Bank of UAE 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 loan; and

100% risk weight when specific provisions are greater than 20% of the outstanding amount of the loan.

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):

Risk weighted assets as per standardized approach is set out below:

2009

Assets classes	On balance sheet	Off balance sheet	Credit risk mitigation (CRM) Exposure before CRM	CRM	After CRM	Risk weighted assets
Claims on Sovereigns	1,429,561	62,431	1,491,992	-	1,491,992	-
Claims on Non-Central Government Public Sector Entities (PSES)	2,500,106	164	2,500,269	-	2,500,269	25,965
Claims on banks	2,501,832	18,638	2,520,470	-	2,520,470	859,230
Claims on corporate	1,634,606	625,534	2,260,140	195,288	2,064,852	2,064,852
Claims included in the regulatory retail portfolio	1,675,255	68,299	1,743,338	140,096	1,603,241	1,505,573
Claims secured by residential property	112,711	-	112,711	1,075	111,636	101,738
Claims secured by commercial real estate	2,385,526	-	2,385,526	2,055	2,383,471	2,383,471
High risk categories	20,557	-	20,557	-	20,557	30,836
Past due loans	1,403,735	56	1,072,085	264,673	812,580	1,206,921
Other assets	2,708,524	219	2,708,677	-	2,708,677	2,500,525
Total claims	16,372,413	775,341	16,815,765	603,187	16,217,745	10,679,111
Total credit risk						10,679,111

2008

Assets classes	On balance sheet	Off balance sheet	Credit risk mitigation (CRM) Exposure before CRM	CRM	After CRM	Risk weighted assets
Claims on Sovereigns	1,147,433	91,668	1,239,101	-	1,239,101	-
Claims on Non-Central Government Public Sector Entities (PSES)	2,558,085	96,430	2,654,515	-	2,654,515	-
Claims on banks	1,749,350	-	1,749,350	-	1,749,350	801,445
Claims on corporate	2,351,135	492,823	2,843,958	65,098	2,778,860	2,778,860
Claims included in the regulatory retail portfolio	3,794,959	-	3,794,959	620,838	3,174,121	2,998,935
Claims secured by residential property	69,837	-	69,837	-	69,837	52,378
Claims secured by commercial real estate	957,086	-	957,086	-	957,086	957,086
High risk categories	22,721	-	22,721	-	22,721	34,082
Past due loans	325,209	-	26,958	-	26,958	40,437
Other assets	2,922,002	-	2,922,002	-	2,922,002	2,731,362
Total claims	15,897,817	680,921	16,280,487	685,936	15,594,551	10,394,585
Total credit risk						10,394,585

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

	2009	2008
Profit rate trading risk		
Equity position risk	1,314	34,300
Foreign currency risk	44,269	399,800
	45,583	434,100

5. **Risk management (continued):**

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 AED 1,131, 476 thousand (2008: AED 981,968 thousand)

	2009	2008
6. Cash and balances with banks and financial institution:		
Cash	207,625	173,771
Deposits with CBUAE	581,982	659,764
Due from banks	630,056	338,504
	1,419,663	1,172,039
Due from banks - by geographical distribution		
Within UAE	619,227	326,551
GCC Countries	2,593	2,564
Europe	6,194	7,777
North America	1,105	504
Others	937	1,108
	630,056	338,504

7. **International Murabaha and Wakalah financial institutions:**

International Murabaha and Wakalah represent transactions with high credit quality rated international banks with residual maturity for the majority up to three months from the balance sheet date.

Wakala	1,762,707	1,209,575
International Murabaha	-	201,271
	1,762,707	1,410,846
International Murabaha and Wakalah with financial institutions by geographical distribution:		
Within UAE	1,294,315	1,410,846
GCC Countries	468,392	-
Europe	-	-
	1,762,707	1,410,846

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	83,474	33,037
Murabaha receivables	2,592,766	3,659,347
Visa receivables	40,899	49,043
Istisna	11,616	4,240
Provision for impaired financing receivables	(109,394)	(64,983)
	2,619,361	3,680,684
b) By sector		
Other Government Departments	12,665	63
Construction	94,136	292,819
Trading	361,030	410,605
Personal	1,603,061	1,977,104
Others	657,863	1,065,076
Provision for impaired financing receivables	(109,394)	(64,983)
	2,619,361	3,680,684
c) Impairment provision for financing receivables		
Balance, beginning of the year	64,983	24,707
Written off during the year	(198)	(122)
Additional provision for the year	59,320	42,318
Recoveries and write-backs during the year	(14,711)	(1,920)
	109,394	64,983

9. Leased assets :

	2009	2008
Leased assets are finance leases, which comprise the following:-		
a) Net investment		
Gross investment	7,421,003	6,630,787
Unearned income	(812)	(88,158)
Provision for impaired leased assets	(17,864)	(19,496)
	7,402,327	6,523,133
b) By sector		
Government of Sharjah	-	-
Government Departments and Authorities	3,256,564	2,785,304
Construction	1,717,936	1,652,663
Trading	134,950	161,412
Personal	1,596,045	1,378,790
Others	714,696	564,460
Provision for impaired leased assets	(17,864)	(19,496)
	7,402,327	6,523,133
c) Impairment provision for Leased Assets		
Balance, beginning of the year	19,496	10,073
Additional provision for the year	1,368	9,423
Recoveries and write-backs during the year	(3,000)	-
	17,864	19,496
d) The net investment in finance leases comprises:		
Less than one year	894,122	504,421
Between one and five years	2,414,867	3,817,797
More than five years	4,093,338	2,200,915
	7,402,327	6,523,133

10. Loans and advances:

a) Loans and advances, net		
Loans and advances	161,279	164,114
Less: Provisions for impaired loans and advances	(161,279)	(164,114)
	-	-
Loans and advances are all domestic		
b) Impairment provision for loans and advances		
Balance, beginning of the year	164,114	167,654
Written off during the year	(2,387)	(627)
Additional provision for the year	-	-
Recoveries and write-backs during the year	(448)	(2,913)
	161,279	164,114

11. Investments securities:

Investments comprise the following:		
-Available-for-sale	334,329	399,830
- Held-to-maturity (Sukuk)	186,772	184,056
- Investment at fair value through profit and loss	657	17,152
	521,758	601,038
Available-for-sale comprises the following:		
- Quoted	87,644	103,102
- Un-quoted	332,774	382,786
- Impairment Provision	(86,089)	(86,058)
	334,329	399,830
Impairment Provision - Investments securities		
Balance beginning of the year	86,058	2,554
Additional Provision through profit and loss	12,436	67,288
Additional Provision through equity	(12,405)	16,216
	86,089	86,058

11. Investments securities(continued):

	2009	2008
Investments securities – by geographical distribution		
- Available-for-sale:		
Domestic	48,266	85,607
International	372,152	400,281
Impairment Provision	(86,089)	(86,058)
	334,329	399,830
- Held-for-maturity:		
Domestic	-	18,699
International	186,772	165,357
	186,772	184,056
- Investment at fair value through profit and loss:		
Domestic	657	17,152
	657	17,152
Total investment securities	521,758	601,038

12. Investment properties

Balance as at 1st January	34,957	44,865
Sold	-	(13,978)
Transfer from Capital work in progress	121,679	-
Revaluation gain	-	4,070
As at 31st December	156,636	34,957
- Investment properties by geographical distribution:		
Domestic	148,929	27,250
International	7,707	7,707
	156,636	34,957

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 values 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:

Balances as at 1st January	1,005,705	388,688
Addition	2,908	655,046
Reevaluation loss	-	(12,443)
Sold	-	(25,586)
As at 31st December	1,008,613	1,005,705
- Properties held for sale by geographical distribution:		
Domestic	1,008,613	1,005,705
	1,008,613	1,005,705

14. Other assets:

Prepaid expenses	20,684	14,262
Profit Receivable	209,083	95,313
Sundry debtors	14,141	19,816
Clearing	-	11,678
Assets available for sale-Murabaha	2,494	3,598
Other Receivable SNH	9,662	15,067
Other Receivable SIFS	59,783	75,335
Reimbursements under acceptances	31,063	61,900
Others	6,989	6,989
	353,899	303,958

15. Property and equipment:

	Freehold Land & Buildings	Equipment, Furniture & Fittings	Computer Equipment	Motor Vehicles	Capital Work in Progress	Total
Cost - 2009						
As at 1st January 2009	593,001	87,629	31,302	3,051	259,869	974,852
Additions	1,303	3,349	4,808	416	64,396	74,272
Transfer to investment properties	-	-	-	-	(112,253)	(112,253)
Disposals	(11,816)	(6,812)	(3,331)	(114)	(795)	(22,868)
Capitalized	141,169	12,596	17,825	-	(171,590)	-
As at 31st December 2009	723,657	96,762	50,604	3,353	39,627	914,003
Accumulated depreciation - 2009						
As at 1st January 2009	80,984	76,517	11,882	1,949	-	171,332
Additions	7,589	6,355	8,179	497	-	22,620
Disposals	(2,392)	(4,196)	(2,873)	(72)	-	(9,533)
As at 31st December 2009	86,181	78,676	17,188	2,374	-	184,419
Net book value						
As at 31st December 2009	**637,476**	**18,086**	**33,416**	**979**	**39,627**	**729,584**
As at 31st December 2008	**512,017**	**11,112**	**19,420**	**1,102**	**259,869**	**803,520**

	2009	2008
16. Customers' deposits:		
Current accounts	1,953,024	2,174,803
Saving accounts	785,686	720,174
Watany/call accounts	299,382	406,082
Time deposits	6,501,839	5,352,944
Margins	320,390	415,033
	9,860,321	9,069,036
17. Due to banks:		
On demand	96,716	189,752
Term deposit	546,940	812,983
	643,656	1,002,735

18. Sukuk payable :

In 2006 the Bank through a shari'a compliant Sukuk Financing arrangement raised medium term finance amounting to AED 826 million (US$ 225 million), which is listed in London Stock Exchange PLC.

The terms of the arrangement include the transfer of certain leased assets of the Bank on a Co-ownership basis to a Sukuk company (SIB Sukuk Company Limited - the Issuer) specially formed for this transaction. The assets are in control of the Bank and shall be continued to be serviced by the Bank. The Sukuk certificates are due for maturity on 12 October 2011.

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$ 225 million.

	2009	2008
19. Other Liabilities:		
Depositors' profit payable	20,060	44,255
Payables subsidiaries	63,897	109,204
Accrual and Provision	4,606	11,080
Accounts payable	40,821	64,757
Zakat payable	77,199	39,882
Provision for staff benefits	19,788	17,654
Managers' cheques	11,655	14,233
Obligations under acceptances	31,063	61,900
Sundry creditors	56,516	69,053
Others	9,520	3,510
	335,125	435,528

20. Share Capital:

The Bank's issued and fully paid share capital comprises 2,310,000,000 shares of AED 1.0 each.

	2009		2008	
	No. of Shares	Value	No. of Shares	Value
Balance, beginning of the year	2,200,000,000	2,200,000	1,100,000,000	1,100,000
Bonus Share	110,000,000	110,000	220,000,000	220,000
Right issue	-	-	880,000,000	880,000
	2,310,000,000	2,310,000	2,200,000,000	2,200,000

Pursuant to the resolution passed in the Annual General Meeting of the Bank held on 21st March 2009 the holders of the ordinary shares received 1 bonus share for every 20 shares held amounting to AED 110 million (2008: AED 220 million).

21. Proposed cash dividend and Bonus Share :

The Directors propose to the Shareholders a cash dividend of 10% of the par value of share (AED 0.10 per share) amounting to AED 231 million with nil bonus share. (compared to a 1 bonus share for every 20 shares amounting to AED 110.0 million and cash dividend of AED 110.0 million (AED 0.05 per share)

22. Proposed directors' fees :

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 2.7 million (2008: AED 1.8 million) has been treated 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 proposes determined by the Ordinary General Meeting upon recommendations of the Board of Director. The movements in reserves:

	Legal Reserve	Statutory Reserve	Revaluation Reserve
Balance at 1 January 2009	1,551,843	89,008	802
Change in Fair-value of investment	-	-	81
Transfer to capital (bonus share)	(110,000)	-	-
Transfer from retained earning	1,274	-	-
Balance at 31 December 2009	1,443,117	89,008	883

The revaluation reserve comprises the cumulative net change in fair values of available-for-sale assets

	2009	2008
24. Fees, commission and other income:		
Fees and commissions	50,280	78,352
Net gains from dealing in foreign currencies	20,949	25,618
Income from investments securities	18,476	10,171
Income from properties held for sale	5,690	43,014
Fair value gain on investment properties	-	4,070
Income from subsidiary companies	47,322	138,673
Other operating income	4,453	11,086
	147,170	310,984
25. General and administrative expenses:		
Staff costs	201,414	188,606
Depreciation	22,620	17,871
Other general and administrative expenses	60,411	72,412
	284,445	278,889
26. Provision - net of recoveries :		
a) provision for customer receivables – net of recoveries		
Provision made during the year	(54,975)	(51,741)
Recoveries during the year	16,580	6,467
	(38,395)	(45,274)
b) Other provision – net of recoveries		
Impairment provision - available-for-sale investment	(12,436)	(67,288)
Impairment Provision - properties-held-for sale	-	(12,443)
Impairment Provision - customer receivables - SIFS	16,567	(62,562)
Impairment Provision - customer receivables - SHNC	-	(14,513)
	4,131	(156,806)
c) Other recoveries		
Other recoveries during the year	28	479
	28	479
Total provision - net of recoveries	(34,236)	(201,601)

27. Distribution to depositors:

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:

	2009	2008
Appropriation to depositors	305,500	228,313
Transfer from profit equalization reserve	(1,652)	(204)
	303,848	228,109

28. Basic and diluted earnings per share:

The calculation of earnings per share is based on earnings of AED 260.1 million (2008:AED 231.6 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:

	2009	2008
Cash and cash equivalents comprise		
Cash and balances with banks and financial institutions	1,419,663	1,172,039
International Murabaha and Wakala with financial institutions	1,762,707	1,410,846
	3,182,370	2,582,885
Less: Cash reserves with CBUAE	(574,397)	(659,763)
Cash and cash equivalents	2,607,973	1,923,122

Cash reserves with CBUAE are non-profit bearing and not available to fund day-to-day operations of the Bank.

30. 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 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 international Murabaha deals with other financial institutions, 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 Sharia'a Compliant shares.

	Corporate and Government	Retail	Investment and Treasury	Subsidiaries	Total
Income Statement:					
For the year ended 31st December 2009:					
Income from Murabaha and leasing	330,515	352,334	67,062	-	749,911
Sukuk Payable	-	-	(14,417)	-	(14,417)
Fees, Commission and other income	24,805	32,540	40,560	47,322	145,227
Unallocated income	-	-	-	-	1,943
Total income	**355,320**	**384,874**	**93,205**	**47,322**	**882,664**
General and administrative expenses	-	-	-	(35,929)	(35,929)
General and administrative expenses - unallocated	-	-	-	-	(248,516)
Net operating income	**355,320**	**384,874**	**93,205**	**11,393**	**598,219**
Provisions- net of recoveries	(32,694)	(4,943)	(13,166)	16,567	(34,236)
Net profit before distribution to depositors	**322,626**	**379,931**	**80,039**	**27,960**	**563,983**
Distribution to depositors	(205,363)	(84,870)	(11,963)	-	(302,196)
Transfer to profit equalization reserve - unallocated	-	-	-	-	(1,652)
Net profit for the year	**117,263**	**295,061**	**68,076**	**27,960**	**260,135**
Balance sheet:					
As at 31st December 2009:					
Assets					
Segment assets	5,231,185	4,542,571	5,147,031	556,658	15,477,445
Unallocated assets	-	-	-	-	497,103
Total assets	**5,231,185**	**4,542,571**	**5,147,031**	**556,658**	**15,974,548**
Liabilities					
Segment liabilities	6,355,610	3,535,774	1,468,750	63,897	11,424,031
Unallocated liabilities	-	-	-	-	317,269
Total liabilities	**6,355,610**	**3,535,774**	**1,468,750**	**63,897**	**11,741,300**

30. Segment reporting (continued):

	Corporate and Government	Retail	Investment and Treasury	Subsidia-ries	Total
Income Statement:					
For the year ended 31st December 2008:					
Income from Murabaha and leasing	259,388	307,005	99,948	-	666,341
Sukuk Payable	-	-	(37,147)	-	(37,147)
Fees, Commission and other income	19,076	43,127	65,395	138,673	266,271
Unallocated income	-	-	-	-	44,713
Total income	**278,464**	**350,132**	**128,196**	**138,673**	**940,178**
General and administrative expenses	-	-	-	(49,360)	(49,360)
General and administrative expenses - unallocated	-	-	-	-	(229,529)
Net operating income	**278,464**	**350,132**	**128,196**	**89,313**	**661,289**
Provisions- net of recoveries	(2,368)	(40,431)	(96,240)	(62,562)	(201,601)
Net profit before distribution to depositors	**276,096**	**309,701**	**31,956**	**26,751**	**459,688**
Distribution to depositors	(133,547)	(57,613)	(44,385)	-	(235,545)
Transfer to profit equalization reserve - unallocated	-	-	-	-	7,436
Net profit for the year	**142,549**	**252,088**	**(12,429)**	**26,751**	**231,579**
Balance sheet:					
As at 31st December 2008:					
Assets					
Segment assets	5,057,455	4,791,701	4,571,224	599,671	15,020,051
Unallocated assets	-	-	-	-	515,829
Total assets	**5,057,455**	**4,791,701**	**4,571,224**	**599,671**	**15,535,880**
Liabilities					
Segment liabilities	5,834,390	3,234,646	1,827,054	109,204	11,005,294
Unallocated liabilities	-	-	-	-	371,389
Total liabilities	**5,834,390**	**3,234,646**	**1,827,054**	**109,204**	**11,376,683**

31. Contingent liabilities 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 recognized at the balance sheet 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 recognized in the balance-sheet 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.

	2009	2008
a)Letter of credit - by sector:		
Government of Sharjah	-	-
Government Departments and Authorities	16,985	17,323
Corporate	10,960	117,855
Retail and Others	42,233	31,265
	70,178	166,443

31. **Contingent liabilities (continued):**

b)**Letter of guarantee – by sector:**

	2009	2008
Government of Sharjah	4,573	4,573
Government Departments and Authorities	49,469	83,766
Corporate	271,733	535,144
Retail and others	333,443	270,605
	659,218	894,088

c) **Commitments :**

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.(2008 : AED 181.5 million).

In addition a financial commitments of AED 530.0 million issued to Abu Dhabi securities market against conducting brokerage operations for Sharjah Islamic financial services-one of the group's subsidiary.(2008 : AED 530.0 million).

32. **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 31st December in respect of related parties included in the consolidated financial statements are as follows:

Government of Sharjah receivables	645,734	454,815
Government departments and authorities receivables	2,676,950	2,590,939
Other financing receivables and investing activities	497,075	537,820
Government of Sharjah deposits	7,776	215,557
Government department & authority deposits	2,328,230	1,957,995
Other deposits	245,028	201,989
Contingent liabilities	70,992	121,997
Income from financing and investing activities	225,650	192,482
Depositors' share of profit	49,143	31,871

Key management compensation includes salaries and other short term benefits of AED 11.9 million in 2009 (2008: AED 12.7 million) and post employment benefits of AED 0.5 million in 2009 (2008: AED 0.7 million).

33. **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 balance sheet date, the net assets value per unit of the fund was AED 10.2 million (2008 : AED 9.7 million)

34. **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 available-for-sale investments are based on quoted market price at the balance sheet 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. Unquoted investments whose fair value can not be reliably measured are carried at cost less any impairment losses. 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 balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

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 Bank.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Note: In the Annual General Meeting of the bank held on 14th March 2011 the Shareholders amended the proposed dividend from 7% cash to 5.5% cash (AED 0.055 per share) amounting to AED 133.4 million for the year 2010, accordingly the accrued Zakat will increase by AED 943 thousand to reach AED 48.3 million.

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 31st December 2010.

Financial Highlights

The Group has reported a net profit of AED 266.4 million, which represents a 2.4% increase over 2009 results of AED 260.1 million, and total assets of the Group increased by AED 692.6 million, which is mainly due to the increases of customers' deposits by AED 517.8 million, which was deployed with banks to strengthen the group's liquidity position.

The Directors propose to the Shareholders a cash dividend of 7% of the par value of share (AED 0.07 per share) amounting to AED 169.8 million. *(compared to cash dividend of AED 115.5 million (AED 0.05 per share) and 1 bonus share for every 20 shares amounting to AED 115.5 million for 2009).*

The Directors propose the following appropriations for 2010 :-

	AED million
1) Proposed cash dividend	169.8
2) Zakat	47.4
3) Proposed Directors' fees	2.7
Total	219.9

After carrying forward the retained earnings from last year and the above proposed appropriations, total shareholders funds will amount to AED 4.1 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 2010 at the Annual General Meeting held on 8th March 2010.

KPMG expressed their willingness for their re-appointment for the year ending 31 December 2011.

On behalf of the board

Sultan Bin Mohammed Bin Sultan Al Qassimi
Chairman
19th January 2011

KPMG

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2002, Al Batha Tower
Buhaira Corniche
Sharjah
United Arab Emirates

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Fax +971 (6) 572 3773
Website 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 2010, 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 2010, 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 2010, 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

19 JAN 2011

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010
(Currency: Thousands of U.A.E. Dirhams)

	Notes	2010	2009
Assets:			
Cash and balances with banks and financial institutions	6	1,921,694	1,419,663
Wakalah arrangements with financial institutions	7	2,242,617	1,762,707
Financing receivables	8	2,118,142	2,619,361
Leased assets	9	7,535,640	7,402,327
Investments securities	11	471,664	521,758
Investment properties	12	179,076	156,636
Properties held for sale	13	1,016,675	1,008,613
Other assets	14	360,777	353,899
Property and equipment	15	820,876	729,584
Total assets		**16,667,161**	**15,974,548**
Liabilities:			
Customers' deposits	16	10,378,134	9,860,321
Due to banks	17	677,089	643,656
Sukuk payable	18	825,831	825,094
Other liabilities	19	300,578	257,926
Zakat payable		136,720	123,240
Total liabilities		**12,318,352**	**11,710,237**
Shareholders equity:			
Share capital	20	2,425,500	2,310,000
Legal reserve	23	1,327,617	1,443,117
Statutory reserve	23	89,008	89,008
Fair value reserve	23	(15,426)	883
Retained earnings		522,110	421,303
Total shareholders equity:		**4,348,809**	**4,264,311**
Total liabilities and shareholders equity		**16,667,161**	**15,974,548**
Contingencies and commitments			
Letters of credit	32	136,647	70,178
Letters of guarantee	32	607,164	659,218
		743,811	729,396

The consolidated financial statements were authorized for issue in accordance with a resolution of Directors on 19th January 2011 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 2010
(Currency: Thousands of U.A.E. Dirhams)

	Notes	2010	2009
Income from murabaha and leasing		724,787	749,911
Profit on sukuk		(9,127)	(14,417)
Fees, commission and other income	24	164,524	147,170
Total income		880,184	882,664
General and administrative expenses	25	(300,641)	(284,445)
Net operating income		579,543	598,219
Provisions - net of recoveries	26	(31,442)	(34,236)
Net profit before distribution to depositors		548,101	563,983
Distribution to depositors	27	(281,692)	(303,848)
Net profit for the year (Attributable to the shareholders of the Bank)		266,409	260,135
Basic and diluted earnings per share (U.A.E. Dirhams)	28	0.11	0.11

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 COMPERHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010
(Currency: Thousands of U.A.E. Dirhams)

	2010	2009
Net profit for the year	**266,409**	**260,135**
(Attributable to the shareholders of the Bank)		
Other comprehensive income		
Net change in fair value reserve	(16,309)	81
Total comprehensive income for the year		
(Attributable to the shareholders of the Bank)	**250,100**	**260,216**

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 2010
(Currency: Thousands of U.A.E. Dirhams)

	2010	2009
Cash flows from operating activities:		
Net profit for the year	**266,409**	**260,135**
Adjustments:		
Depreciation	26,512	22,620
Amortization of sukuk issuance cost	737	775
Provision of customer receivables	46,589	54,975
Provision for impairment on available-for-sale financial assets	6,877	12,436
Board of Directors' remuneration paid	(2,700)	(1,800)
Operating profit before changes in operating assets and liabilities	**344,424**	**349,141**
Changes in operating assets and liabilities:		
Change in reserve with central bank	(5,656)	85,367
Change in wakalah arrangements with financial institutions	(287,134)	-
Change in financing receivables	460,466	1,007,716
Change in leased assets	(133,313)	(880,562)
Change in other assets, net	(12,714)	(49,941)
Change in customers' deposits	517,813	791,285
Change in due to banks	33,433	(359,079)
Change in other liabilities and accrued zakat	8,730	(142,730)
Net cash flows from / (used in) operating activities	926,049	801,197
Cash flows from investing activities:		
Properties and equipment	(117,803)	51,316
Investments properties, net	(22,440)	(121,679)
Properties held for sale, net	(8,062)	(2,908)
Investments securities, net	26,907	66,925
Net cash flows from investing activities	(121,398)	(6,346)
Cash flows from financing activities:		
Cash dividends- paid	(115,500)	(110,000)
Net cash (used in) / generated from financing activities	(115,500)	(110,000)
Net increase in cash and cash equivalents	689,151	684,851
Cash and cash equivalents at the beginning of the year (note 29)	2,607,973	1,923,122
Cash and cash equivalents at the end of year (note 29)	3,297,124	2,607,973

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 2010

(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
Balance as at 1 January 2009	2,200,000	1,551,843	89,008	802	320,283	4,161,936
Total comprehensive income for the year						
Profit for the year	-	-	-	-	260,135	260,135
Other comprehensive income						
Net change in fair value of reserve	-	-	-	81	-	81
Total comprehensive income for the year	-	-	-	81	260,135	260,216
Transactions with owners recorded directly in equity						
Cash dividends paid	-	-	-	-	(110,000)	(110,000)
Issue of bonus shares	110,000	(110,000)	-	-	-	-
Transfer to Legal reserve	-	1,274	-	-	(1,274)	-
Zakat	-	-	-	-	(46,041)	(46,041)
Directors' remuneration	-	-	-	-	(1,800)	(1,800)
Total transactions with owners	110,000	(108,726)	-	-	(159,115)	(157,841)
As at 31 December 2009	2,310,000	1,443,117	89,008	883	421,303	4,264,311
As at 1 January 2010	2,310,000	1,443,117	89,008	883	421,303	4,264,311
Total comprehensive income for the year						
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
Transactions with owners recorded directly in equity						
Cash dividends paid	-	-	-	-	(115,500)	(115,500)
Issue of bonus shares	115,500	(115,500)	-	-	-	-
Zakat	-	-	-	-	(47,402)	(47,402)
Directors' remuneration	-	-	-	-	(2,700)	(2,700)
Total Transactions with owners	115,500	(115,500)	-	-	(165,602)	(165,602)
As at 31 December 2010	2,425,500	1,327,617	89,008	(15,426)	522,110	4,348,809

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.

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 18th 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 30th 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 30th 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).

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;

ii) available-for-sale financial assets; and

iii) investment properties.

c. **Functional and reporting currency**

These consolidated financial statements 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 and leased assets, impairment of available-for-sale financial assets, held-to-maturity financial assets, provisions for doubtful debts and slow moving inventories.

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.

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 34.

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. Classification

The Group's classification of financial assets include the following categories: financing receivables, leased assets ("*Ijarah*"), held-to-maturity financial assets, financial assets at fair value through profit or loss, available-for-sale financial assets and other financial assets. Management determines the classification of financial assets at initial recognition.

Financial assets are categorized as follows:

Financing receivables

Financing receivables are non derivative financial assets with fixed or determinable payment that are not quoted in the market. 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 amortized 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.

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.

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 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.

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.

b. Non-derivative financial instruments (continued):

iv. Fair value measurement principles

Fair value of financial assets at fair value through profit or loss and available-for-sale financial assets 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.

Unquoted financial assets whose fair value can not be reliably measured are carried at cost less any impairment losses.

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 available-for-sale financial assets are stated at their fair value. All other financial instruments are measured at amortized cost less impairment loss, if any.

vi. 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.

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.

vii. 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.

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 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.

e. Revenue recognition (continued)

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 of the 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 amortized 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 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.

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 2010, and have not been early adopted by the Group in preparing these consolidated financial statements:

Standard	Description	Effective date (annual period beginning or after)
IFRS-9	Financial instruments	1 January 2013
IFRS - 7	Financial Instruments: Disclosures (Improvements)	1 January 2011
IFRIC-14(Amended)	The Limit on Defined Benefit Assets, Minimum Funding Requirements and their Interaction	1 January 2011
IAS-1	Presentation of financial statements	1 January 2011
IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
IAS - 24 (Revised)	Related Party Disclosures	1 January 2011
IAS 32 (Amended)	Financial instrument Presentation	1 February 2010.

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 except for IFRS 9 as stated below:

IFRS 9 is the first standard issued as part of a wider project to replace IAS 39, key features of IFRS 9 are:
- IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value.
- The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

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.

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 prioritization 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 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;
  - 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.

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.
- 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 analyze 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, 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. The tables below set out the concentration of credit risk by sector, geography and currency. In these tables, on reporting date includes exposure to trading equities and other assets, however, acceptances have been included under off balance sheet in order to make it in line with Basel II requirements of these consolidated financial statements. All undrawn commitments as at the reporting date are unconditionally revocable.

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 fair value are based on the value of collateral assessed at the time of borrowing, and are subsequently monitored on a periodic basis.

	Bank and financial institutions		Investment securities		Financing receivable and leased assets		Loans and advances	
	2010	2009	2010	2009	2010	2009	2010	2009
Carrying amount	2,578,565	2,392,763	169,779	186,772	9,653,782	10,021,688	-	-
Individually impaired								
Substandard	-	-	-	-	136,971	37,855	26	26
Doubtful	-	-	-	-	115,730	104,947	10,489	9,726
Loss	-	-	-	-	2,776	2,495	229,793	229,306
Gross amount	-	-	-	-	255,477	145,297	240,308	239,058
Profit in suspense	-	-	-	-	(6,241)	(3,587)	(79,049)	(77,779)
Specific allowance for impairment	-	-	-	-	(113,903)	(89,693)	(161,253)	(161,273)
Total	-	-	-	-	135,333	52,017	6	6
Neither past due nor impaired	2,578,565	2,392,763	169,779	186,772	9,565,945	10,007,231		-
Collective allowance for impairment	-	-	-	-	(47,496)	(37,560)	(6)	(6)
Carrying amount	2,578,565	2,392,763	169,779	186,772	9,653,782	10,021,688	-	-
Includes accounts with renegotiated terms	-	-	-	-	792,961	732,725	-	-

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

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.

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

Settlement risk (continued):

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.

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 maintained.

31 December 2010	Less than 3 months	3 months to 1 year	1-5 Year	Over 5 Year	Total
Assets					
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
	4,613,496	890,198	5,267,239	3,518,824	14,289,757
Liabilities and equity					
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	-	101,675	-	437,298
	9,142,732	3,073,945	101,675	-	12,318,352

31 December 2009	Less than 3 months	3 months to 1 year	1-5 Year	Over 5 Year	Total
Assets					
Cash and balances with banks and financial institutions	1,382,736	34,379	1,137	1,411	1,419,663
Wakalah arrangements with financial institutions	1,762,707	-	-	-	1,762,707
Financing receivables	702,695	179,090	981,341	756,235	2,619,361
Leased assets	173,363	677,987	2,326,091	4,224,886	7,402,327
Investments securities	18,892	76,644	296,654	129,568	521,758
	4,040,393	968,100	3,605,223	5,112,100	13,725,816
Liabilities and equity					
Customers' deposits	6,167,569	3,437,866	113,748	141,138	9,860,321
Due to banks	643,656	-	-	-	643,656
Sukuk payable	-	-	825,094	-	825,094
Other liabilities and zakat	238,099	-	143,067	-	381,166
	7,049,324	3,437,866	1,081,909	141,138	11,710,237

b. Liquidity risk (continued):

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.

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:

	Net position	
Currency	2010	2009
US dollar	(3,547)	(47,846)
Sterling pound	67	130
Euro	(79)	(74)
Bahrani Dinar	6,711	6,702
Qatari Riyal	189	397
Saudi Riyals	1,584	1,663
Kuwaiti Dinar	35,736	42,063
Omani Riyal	26,439	26,390

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.

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.

5. Risk management (continued):

d. Operational risks (continued):

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 available-for-sale 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):**

The table below summarizes the composition of regulatory capital of the Group:

	Basel II		Basel I	
	2010	2009	2010	2009
Tier 1 capital				
Ordinary share capital	2,425,500	2,310,000	2,425,500	2,310,000
Retained earnings	303,103	208,483	303,103	208,483
Statutory and special reserve	89,008	89,008	89,008	89,008
Legal Reserve	1,312,189	1,443,117	1,327,615	1,443,117
Total tier 1 capital base	**4,129,800**	4,050,608	4,145,226	4,050,608
Tier 2 capital				
Fair value reserve	-	397	(15,426)	883
Collective impairment provisions	47,502	37,566	-	-
Total tier 2 capital base	47,502	37,963	(15,426)	**883**
Total capital base (a)	**4,177,302**	4,088,571	4,129,800	4,051,491
Risk weighted assets:				
On balance sheet	**16,743,999**	**16,040,427**	16,696,502	16,002,462
Off balance sheet	**752,927**	**775,341**	277,021	300,185
Credit risk	**10,769,632**	**10,679,111**	9,357,724	9,652,365
Market risk	**38,586**	**45,583**	-	-
Operational risk	**945,689**	1,131,476	-	-
Risk weighted assets	11,753,907	11,856,170	9,357,724	9,652,365
Tier 1 ratio	**35.14**	34.15%	**44.30**	**41.96%**
Capital adequacy **ratio**	**35.54**	34.47%	44.13	**41.97%**

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 GGC 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%.

Capital resources and adequacy

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 ECAIs. 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.

Risk weighted assets as per standardized approach is set out below:

2010

Assets classes (on net basis)	On balance sheet	Off balance sheet	Credit risk mitigation (CRM) Exposure before CRM	CRM	After CRM	Risk weighted assets
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
Total claims	16,743,999	752,927	17,496,926	463,707	17,033,219	10,769,632
Total credit risk						10,769,632

Equity portfolios (continued):

2009

Assets classes (on net basis)	On balance sheet	Off balance sheet	Credit risk mitigation (CRM) Exposure before CRM	CRM	After CRM	Risk weighted assets
Claims on sovereigns	1,429,561	62,431	1,491,992	-	1,491,992	-
Claims on non-central government public sector entities (PSES)	2,500,106	164	2,500,270	-	2,500,270	25,965
Claims on banks	2,501,832	18,638	2,520,470	-	2,520,470	859,230
Claims on corporate	1,634,606	625,534	2,260,140	195,288	2,064,852	2,064,852
Claims included in the regulatory retail portfolio	1,675,039	68,299	1,743,338	140,097	1,603,241	1,505,573
Claims secured by residential property	112,712	-	112,712	1,075	111,637	101,738
Claims secured by commercial real estate	2,385,526	-	2,385,526	2,055	2,383,471	2,383,471
High risk categories	20,557	-	20,557	-	20,557	30,836
Past due loans	1,072,030	56	1,072,086	259,506	812,580	1,206,921
Other assets	2,708,458	219	2,708,677	-	2,708,677	2,500,525
Total claims	16,040,427	775,341	16,815,768	598,021	16,217,747	10,679,111
Total credit risk						10,679,111

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

	2010	2009
Profit rate trading risk		
Equity position risk	8,740	1,314
Foreign currency risk	29,846	44,269
	38,586	45,583

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 945,689 thousand *(2009: AED 1,131,476 thousand)*

6. Cash and balances with banks and financial institutions:

Cash	204,276	207,625
Deposits with CBUAE	1,381,469	581,982
Due from banks	335,949	630,056
	1,921,694	1,419,663

Due from banks - by geographical distribution

Within UAE	327,799	619,227
GCC Countries	3,509	2,593
Europe	2,731	6,194
North America	711	1,105
Others	1,199	937
	335,949	630,056

7. **Wakalah arrangements with financial institutions:**

Wakalah arrangements represent transactions with local and international banks with residual maturity between three months to one year from the reporting date.

Wakala arrangements	2,242,617	1,762,707
	2,242,617	**1,762,707**

Wakalah arrangements with financial institutions by geographical distribution:

Within UAE	1,845,711	1,294,315
GCC Countries	396,906	468,392
	2,242,617	**1,762,707**

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	149,255	83,474
Murabaha receivables	2,056,968	2,592,766
Visa receivables	39,195	40,899
Istisna	8,263	11,616
Provision for impaired financing receivables	(135,539)	(109,394)
	2,118,142	**2,619,361**

b) By sector

	2010	2009
Other Government departments	10,122	12,665
Construction	133,207	94,136
Trading	380,731	361,030
Personal	1,362,755	1,603,061
Others	366,866	657,863
Provision for impaired financing receivables	(135,539)	(109,394)
	2,118,142	**2,619,361**

c) Impairment provision for financing receivables

Balance, beginning of the year	109,394	64,983
Written off during the year	(297)	(198)
Additional provision for the year	32,775	59,320
Recoveries and write-backs during the year	(6,333)	(14,711)
	135,539	**109,394**

9. **Leased assets:**

Leased assets are finance leases, which comprise the following:-

a) Net investment

Gross investment	7,561,500	7,421,003
Unearned income	-	(812)
Provision for impaired leased assets	(25,860)	(17,864)
	7,535,640	**7,402,327**

b) By sector

Government Departments and Authorities	3,143,776	3,256,564
Construction	1,724,253	1,717,936
Trading	239,989	134,950
Personal	1,434,210	1,596,045
Others	1,019,272	714,696
Provision for impaired leased assets	(25,860)	(17,864)
	7,535,640	7,402,327

9. **Leased assets (continued):**

c) **Impairment provision for leased assets**

	2010	2009
Balance, beginning of the year	17,864	19,496
Additional provision for the year	7,996	1,368
Recoveries and write-backs during the year	-	(3,000)
	25,860	17,864

d) **The net investment in finance leases comprises:**

Less than one year	507,186	894,122
Between one and five years	3,620,683	2,414,867
More than five years	3,407,771	4,093,338
	7,535,640	7,402,327

10. **Loans and advances:**

a) **Loans and advances, net**

Loans and advances	161,259	161,279
Less: Provisions for impaired loans and advances	(161,259)	(161,279)
	-	-

Loans and advances are all domestic

b) **Impairment provision for loans and advances**

Balance at the beginning of the year	161,279	164,114
Written off during the year	-	(2,387)
Additional provision for the year	1	-
Recoveries and write-backs during the year	(21)	(448)
	161,259	161,279

11. **Investments securities:**

Investments comprise the following:

-Available-for-sale financial assets	301,228	334,329
- Held-to-maturity (Sukuk) financial assets	169,779	186,772
- Financial assets at fair value through profit or loss	657	657
	471,664	521,758

Available-for-sale comprises the following:

- Quoted	28,007	49,533
- Un-quoted	273,221	284,796
	301,228	334,329

During the year, the Group provided AED 6.88 million *(2009: AED 12.44 million)* as a specific impairment provisions relating to available-for-sale financial assets

Investments securities – by geographical distribution

- Available-for-sale:		
Domestic	4,538	23,499
International	296,690	310,830
	301,228	334,329
- Held-for-maturity - International	169,779	186,772
- Financial assets at fair value through profit or loss - domestic	657	657
Total investment securities	471,664	521,758

12. **Investment properties**

Balance as at 1st January	156,636	34,957
Addition	22,440	-
Transfer from Capital work in progress	-	121,679
As at 31 December	179,076	156,636
- Investment properties by geographical distribution:		
Domestic	171,369	148,929
International	7,707	7,707
	179,076	156,636

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 values 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:

Balances as at 1st January	1,008,613	1,005,705
Addition	92,230	2,908
Disposal during the year	(84,168)	-
As at 31 December	1,016,675	1,008,613
- Properties held for sale by geographical distribution:		
Domestic	1,016,675	1,008,613
	1,016,675	1,008,613

14. Other assets:

	2010	2009
Prepaid expenses	22,180	20,684
Profit receivable	197,067	209,083
Sundry debtors	29,499	14,141
Assets available for sale-Murabaha	4,938	2,494
Other Receivable SNH	8,763	9,662
Other Receivable SIFS	68,067	59,783
Reimbursements under acceptances	23,274	31,063
Others	6,989	6,989
	360,777	353,899

15. Property and equipment:

	Freehold land & buildings	Equipment, furniture & fittings	Computer equipment	Motor vehicles	Capital work in progress	Total
Cost - 2010						
As at 1 January 2010	723,657	96,762	50,604	3,353	39,627	914,003
Additions	100,316	2,463	2,461	-	13,301	118,541
Disposals	(1,608)	(2,845)	(2,432)	-	-	(6,885)
Capitalized	6,977	1,073	9,300	-	(17,350)	-
As at 31 December 2010	829,342	97,453	59,933	3,353	35,578	1,025,659
Accumulated depreciation - 2010						
As at 1 January 2010	86,181	78,676	17,188	2,374	-	184,419
Additions	8,911	6,196	10,951	454	-	26,512
Disposals	(1,608)	(2,783)	(1,757)	-	-	(6,148)
As at 31 December 2010	93,484	82,089	26,382	2,828	-	204,783
Net book value						
As at 31 December 2010	735,858	15,364	33,551	525	35,578	820,876
As at 31 December 2009	637,476	18,086	33,416	979	39,627	729,584

	2010	2009
16. Customers' deposits:		
Current accounts	2,239,411	1,953,024
Saving accounts	836,382	785,686
Watany/call accounts	181,254	299,382
Time deposits	6,927,799	6,501,839
Margins	193,288	320,390
	10,378,134	9,860,321
17. Due to banks:		
On demand	27,020	96,716
Term deposit	650,069	546,940
	677,089	643,656

18. Sukuk payable :

In 2006 the Bank through a shari'a compliant Sukuk financing arrangement raised medium term finance amounting to AED 826 million (US$ 225 million), which is listed in London Stock Exchange PLC.

The terms of the arrangement include the transfer of certain leased assets of the Bank on a Co-ownership basis to a Sukuk company (SIB Sukuk Company Limited - the Issuer) specially formed for this transaction. The assets are in control of the Bank and shall be continued to be serviced by the Bank. The Sukuk certificates are due for maturity on 12 October 2011.

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$ 225 million.

	2010	2009
19. Other Liabilities:		
Depositors' profit payable	33,715	20,060
Payables subsidiaries	47,925	63,897
Accrual and provision	14,419	4,606
Accounts payable	28,963	40,821
Provision for staff benefits	23,196	19,788
Managers' cheques	16,684	11,655
Obligations under acceptances	23,275	31,063
Sundry creditors	94,289	56,516
Others	18,112	9,520
	300,578	257,926

20. Share Capital:

The Bank's issued and fully paid share capital comprises 2,425,500,000 shares of AED 1.0 each.

	2010		2009	
	No. of shares	Value	No. of shares	Value
Balance at the beginning of the year	2,310,000,000	2,310,000	2,200,000,000	2,200,000
Bonus Share	115,500,000	115,500	110,000,000	110,000
	2,425,500,000	2,425,500	2,310,000,000	2,310,000

Pursuant to the resolution passed in the Annual General Meeting of the Bank held on 8th March 2010 the holders of the ordinary shares received 1 bonus share for every 20 shares held amounting to AED 115.5 million *(2009: AED 110 million).*

21. Proposed cash dividend and Bonus Share :

The Directors propose to the Shareholders a cash dividend of 7% of the par value of share (AED 0.07 per share) amounting to AED 169.8 million. *(compared to cash dividend of AED 115.5 million (AED 0.05 per share) and 1 bonus share for every 20 shares amounting to AED 115.5 million for 2009).*

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 2.7 million *(2009: AED 2.7 million)* has been treated as a part of other comprehensive income.

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 2010	1,443,117	89,008	883
Change in fair-value of financial assets	-	-	(16,309)
Transfer to capital (bonus share)	(115,500)	-	-
Balance at 31 December 2010	1,327,617	89,008	(15,426)

The fair value reserve comprises the cumulative net change in fair values of available-for-sale financial assets

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.

	2010	2009
24. Fees, commission and other income:		
Fees and commissions	65,291	50,280
Net gains from dealing in foreign currencies	21,199	20,949
Income from investments securities	25,249	18,476
Income from properties held for sale	12,112	5,690
Income from subsidiary companies	30,790	47,322
Other operating income	9,883	4,453
	164,524	**147,170**
25. General and administrative expenses:		
Staff costs	205,708	201,414
Depreciation	26,512	22,620
Other general and administrative expenses	68,421	60,411
	300,641	**284,445**
26. Provision - net of recoveries :		
a) provision for customer receivables – net of recoveries		
Provision made during the year	(40,753)	(54,975)
Recoveries during the year	6,333	16,580
	(34,420)	(38,395)
b) Other provision – net of recoveries		
Impairment provision - available-for-sale financial assets	(6,877)	(12,436)
Impairment Provision - customer receivables – SIFS	(5,836)	16,567
	(12,713)	4,131
c) Other recoveries		
Other recoveries during the year	15,691	28
	15,691	28
Total provision - net of recoveries	**(31,442)**	**(34,236)**

27. Distribution to depositors:

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:

	2010	2009
Appropriation to depositors	289,264	305,500
Transfer from profit equalization reserve	(7,572)	(1,652)
	281,692	**303,848**

28. Basic and diluted earnings per share:

The calculation of earnings per share is based on earnings of AED 266.4 million *(2009: AED 260.1 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		
Cash and balances with banks and financial institutions	1,921,694	1,419,663
Wakala arrangements with financial institutions	1,955,483	1,762,707
	3,877,177	3,182,370
Less cash reserves with CBUAE	(580,053)	(574,397)
Cash and cash equivalents	**3,297,124**	**2,607,973**

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.

Impairment of available for-sale equity financial assets

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

Held-to-maturity financial assets

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such financial assets to maturity. If the Bank sells or reclassifies other than for specific circumstances more than insignificant amount before maturity it will be required to reclassify the entire class as available-for-sale. The financial assets would therefore be measured at fair value not amortised cost.

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.
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 2010					
Financial assets					
Investment securities	11	28,007	-	273,221	301,228
		28,007	-	273,221	301,228
31 December 2009					
Financial assets					
Investment securities	11	49,533	-	284,796	334,329
		49,533	-	284,796	334,329

30. Key accounting estimates, and judgments in applying accounting policies (continued):

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:

	2010	2009
Balance as at 1 January	284,796	309,357
Total gains or losses:		
in consolidated statement of income	34,409	(4,630)
in consolidated statement of comprehensive income through OCI	(13,624)	(5,282)
Purchases	-	-
Disposals	(32,360)	(14,649)
Transfers into Level 3/ (Transfers out of Level 3)	-	-
Balance at 31 December	273,221	284,796

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.

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
Consolidated statement of income: For the year ended 31st December 2010:					
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
Total income	**401,111**	**325,135**	**109,928**	**30,790**	**880,184**
General and administrative expenses	-	-	-	(27,470)	(27,470)
General and administrative expenses – unallocated	-	-	-	-	(273,171)
Net operating income	**401,111**	**325,135**	**109,928**	**3,320**	**579,543**
Provisions- net of recoveries	9,504	(29,119)	(5,991)	(5,836)	(31,442)
Net profit before distribution to depositors	**410,615**	**296,016**	**103,937**	**(2,516)**	**548,101**
Distribution to depositors	(184,846)	(82,611)	(6,663)	-	(274,120)
Transfer to profit equalization reserve - unallocated					(7,572)
Net profit for the year	225,769	213,405	97,274	(2,516)	266,409

31.Segment reporting (continued):

Consolidated statement of financial position: As at 31st December 2010:	Corporate and government	Retail	Investment and treasury	Subsidiaries	Total
Assets					
Segment assets	5,358,240	4,144,693	6,000,424	667,485	16,170,842
Unallocated assets	-	-	-	-	496,319
Total assets	**5,358,240**	**4,144,693**	6,000,424	667,485	**16,667,161**
Liabilities					
Segment liabilities	6,351,989	4,049,260	1,502,920	47,925	11,952,094
Unallocated liabilities	-	-	-	-	366,258
Total liabilities	**6,351,989**	4,049,260	1,502,920	47,925	**12,318,352**

	Corporate and government	Retail	Investment and treasury	Subsidiaries	Total
Consolidated statement of income: For the year ended 31st December 2009:					
Income from murabaha and leasing	330,515	352,334	67,062	-	749,911
Sukuk payable	-	-	(14,417)	-	(14,417)
Fees, commission and other income	24,805	32,540	40,560	47,322	145,227
Unallocated income	-	-	-	-	1,943
Total income	**355,320**	**384,874**	**93,205**	**47,322**	**882,664**
General and administrative expenses	-	-	-	(35,929)	(35,929)
General and administrative expenses - unallocated	-	-	-	-	(248,516)
Net operating income	**355,320**	**384,874**	**93,205**	**11,393**	**598,219**
Provisions- net of recoveries	(32,694)	(4,943)	(13,166)	16,567	(34,236)
Net profit before distribution to depositors	**322,626**	**379,931**	**80,039**	**27,960**	**563,983**
Distribution to depositors	(205,363)	(84,870)	(11,963)	-	(302,196)
Transfer to profit equalization reserve - unallocated	-	-	-	-	(1,652)
Net profit for the year	**117,263**	**295,061**	**68,076**	**27,960**	**260,135**

Consolidated statement of financial position: As at 31st December 2009:					
Assets					
Segment assets	5,231,185	4,542,571	5,147,031	556,658	15,477,445
Unallocated assets	-	-	-	-	497,103
Total assets	**5,231,185**	**4,542,571**	5,147,031	556,658	**15,974,548**
Liabilities					
Segment liabilities	6,355,610	3,535,774	1,468,750	63,897	11,424,031
Unallocated liabilities	-	-	-	-	286,206
Total liabilities	**6,355,610**	3,535,774	1,468,750	63,897	**11,710,237**

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.

	2010	2009
a)Letter of credit - by sector:		
Government departments and authorities	3,012	16,985
Corporate	133,090	10,960
Retail and others	545	42,233
	136,647	70,178
b)Letter of guarantee - by sector:		
Government of sharjah	4,573	4,573
Government departments and authorities	35,244	49,469
Corporate	514,202	271,733
Retail and others	53,145	333,443
	607,164	659,218

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.*(2009 : AED 181.5 million)*.

In addition a financial commitments of AED 530.0 million issued to Abu Dhabi securities market against conducting brokerage operations for Sharjah Islamic financial services-one of the Group's subsidiary*(2009 : AED 530.0 million)*.

The Group's commitments relating to the construction of property and equipments amounting to AED 35.6 million *(2009: AED 39.6 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 31st December in respect of related parties included in the consolidated financial statements are as follows:

	2010	2009
Government of Sharjah receivables	865,113	645,734
Government departments and authorities receivables	2,288,786	2,676,950
Other financing receivables and investing activities	611,069	497,075
Government of Sharjah deposits	137,191	7,776
Government department & authority deposits	2,213,253	2,328,230
Other deposits	223,660	245,028
Contingent liabilities	42,845	70,992
Income from financing and investing activities	258,082	225,650
Depositors' share of profit	36,301	49,143

During the year the Group purchased a piece of land from Government of Sharjah amounting to AED 100 million for future development of SNH

Key management compensation includes salaries and other short term benefits of AED 13.8 million in 2010*(2009: AED 11.9 million)* and post employment benefits of AED 0.7 million in 2010 *(2009: AED 0.5 million)*.

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 9.8 million *(2009: AED 10.2 million)*

35. 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 available-for-sale financial assets 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. Unquoted financial assets whose fair value can not be reliably measured are carried at cost less any impairment losses.

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.

36. 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.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
(UN – AUDITED)
31 MARCH 2011

Directors' Report

The Directors have pleasure in presenting their report together with the condensed consolidated interim financial statements of SHARJAH ISLAMIC BANK ("the Bank") for the three-month period ended 31st March 2011.

Financial Highlights

The Group has reported a net profit of AED 70.0 million for the three-month period ended 31th March 2011 compared to AED 67.5 million for the corresponding prior year period, an increase of 3.7%.

Compared to December 2010, total assets increased by AED 470.8 million to reach AED 17.1 billion, an increase of 2.8%, financing receivables and leased assets increased by 6.3 % (AED 611.6 million) to reach AED 10.3 billion, and customer deposits experienced a growth of 7.3 % (AED 757.0 million) to reach AED 11.1 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

Sultan Bin Mohammed Bin Sultan Al Qassimi
Chairman
14th April 2011

KPMG

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Independent auditors' report on review of condensed consolidated interim financial information

The Shareholders
SHARJAH ISLAMIC BANK

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Sharjah Islamic Bank ("the Bank") and its subsidiaries (collectively referred as "the Group") as at 31 March 2011 and the related condensed consolidated interim statements of comprehensive income (comprising a condensed consolidated interim statement of comprehensive income and a separate condensed consolidated interim statement of income), condensed consolidated interim statement of cash flows and condensed consolidated interim statement of changes in equity for the three-month period then ended ("the condensed consolidated interim financial information). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Financial Reporting Standards IAS 34, *"Interim financial reporting"*. Our responsibility is to express a conclusion on this interim financial information based on our review

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 31 March 2011 is not prepared, in all material respects, in accordance with IAS 34, *"Interim Financial Reporting"*.

KPMG

By: Vijendranath Malhotra
Registration No.: 48B
14 April 2011

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2011
(Currency: Thousands of U.A.E Dirhams)

	31 March 2011 Un-audited	31 December 2010 Audited
Assets		
Cash and balances with banks and financial institutions	**1,566,625**	1,921,694
International murabaha and wakalah with financial institutions	**2,458,055**	2,242,617
Financing receivables	**2,330,238**	2,118,142
Leased assets	**7,935,132**	7,535,640
Investments securities	**462,302**	471,664
Investment properties	**179,076**	179,076
Properties held-for-sale	**1,035,945**	1,016,675
Other assets	**350,711**	360,777
Property and equipment	**819,918**	820,876
Total assets	17,138,002	**16,667,161**
Liabilities		
Customers' deposits	**11,135,154**	10,378,134
Due to banks	**322,824**	677,089
Sukuk payable	**826,033**	825,831
Other liabilities	**442,856**	300,578
Accrued zakat	**129,120**	137,664
Total liabilities	12,855,987	**12,319,296**
Shareholders' equity		
Share capital	**2,425,500**	2,425,500
Legal reserve	**1,327,617**	1,327,617
Statutory reserve	**89,008**	89,008
Revaluation reserve	**(15,374)**	(15,426)
Retained earnings	**455,264**	521,166
Total shareholders' equity	**4,282,015**	4,347,865
Total liabilities and shareholders' equity	17,138,002	16,667,161
Contingent Liabilities		
Letters of credit	**162,808**	136,647
Letters of guarantee	**557,222**	607,164
	720,030	743,811

These condensed consolidated interim financial statements were authorised for issue in accordance with a resolution of the Directors on 14th April 2011.

Sultan Bin Mohammed Bin Sultan Al Qassimi
Chairman

Mohammed Ahmed Abdullah
Chief Executive Officer

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

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2011 (Un- audited)
(Currency: Thousands of U.A.E. Dirhams)

	For the three-month period ended 31 March	
	2011	2010
Income from Murabaha and leasing	**182,374**	176,903
Profit paid on Sukuk	**(2,168)**	(2,074)
Fees, commission and other income	**32,419**	22,854
Income from subsidiaries	**8,133**	10,044
Total income	**220,758**	207,727
General and administrative expenses	**(76,190)**	(66,511)
Net operating income	**144,568**	141,216
Provisions - net of recoveries	**(9,802)**	(1,877)
Net profit before distribution to depositors	134,766	139,339
Distribution to depositors	**(64,796)**	(71,870)
Net profit for the period	**69,970**	67,469
Earning per share (U.A.E. Dirhams)	**0.03**	0.03

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2011 (Un- audited)

(Currency: Thousands of U.A.E. Dirhams)

	For the three-month period ended 31 March	
	2011	**2010**
Net profit for the period	**69,970**	67,469
Other comprehensive income		
Net changes in fair value reserve	**52**	2,405
Total comprehensive income for the period **(attributable to the equity holders of the Bank)**	**70,022**	69,874

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

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2011 (Un- audited)
(Currency: Thousands of U.A.E. Dirhams)

	For the three-month period ended 31 March	
	2011	**2010**
Cash flows from operating activities:		
Net profit for the period	**69,970**	67,469
Adjustments:		
Depreciation	**6,137**	6,503
Amortisation of sukuk issuance cost	**202**	179
Provision on customer receivables	**8,991**	(2,064)
Impairment losses on available-for-sale investment	**988**	107
Operating profit before changes in operating assets and liabilities	**86,288**	72,194
Changes in operating assets and liabilities:		
Change in reserve with Central Bank	**(7,356)**	19,012
Change in international murabaha and wakalah with financial institutions	**76,509**	-
Change in financing receivables	**(221,087)**	343,782
Change in leased assets	**(399,492)**	(12,287)
Change in other assets, net	**(4,447)**	(71,892)
Change in customers' deposits	**757,020**	242,102
Change in due to banks	**(354,265)**	24,413
Change in Zakat	**(8,544)**	(25,436)
Change in other liabilities	**142,278**	5,378
Net cash provided by operating activities	**66,904**	597,266
Cash flows from investing activities:		
Properties and equipment – net	**(5,179)**	(103,199)
Investment properties	**-**	18,865
Acquisition in Properties held-for-sale	**(4,757)**	-
Investments securities	**8,427**	(10,695)
Net cash used in investing activities	**(1,509)**	(95,029)
Cash flows from financing activities:		
Board of Directors' fees paid	**(2,470)**	(2,700)
Cash dividends	**(133,403)**	(115,500)
Net cash used in financing activities	**(135,873)**	(118,200)
Net increase in cash and cash equivalents	**(70,478)**	384,037
Cash and cash equivalents, beginning of the period	**3,297,124**	2,607,973
Cash and cash equivalents, end of period	**3,226,646**	2,992,010
Cash and cash equivalents comprise of:-		
Cash and balances with banks and financial institutions (excluding cash reserve with central bank)	**979,216**	907,175
International murabaha and wakalah with financial institutions: less than 3 months maturity	**2,247,430**	2,084,835
	3,226,646	2,992,010

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

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2011 (Un- audited)
(Currency: Thousands of U.A.E. Dirhams)

	ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK					
	Share capital	**Legal reserves**	**Statutory reserves**	**Revaluation reserve**	**Retained earnings**	**Total shareholders' equity**
Balance as at 1 January 2010	2,310,000	1,443,117	89,008	883	421,303	4,264,311
Total comprehensive income for the period	-	-	-	-	67,469	67,469
Net profit for the period						
Other comprehensive income						
Net change in fair value of available – for – sale investment	-	-	-	2,405	-	2,405
Total comprehensive income for the period	-	-	-	2,405	67,469	69,874
Transactions with owners recorded directly in equity						
Cash dividends paid	-	-	-	-	(115,500)	(115,500)
Issue of bonus shares	115,500	(115,500)	-	-	-	-
Board of directors' fees - paid	-	-	-	-	(2,700)	(2,700)
Total transactions with owners	115,500	(115,500)	-	-	(118,200)	(118,200)
As at 31 March 2010	**2,425,500**	**1,327,617**	**89,008**	3,288	370,572	4,215,985
As at 1 January 2011	2,425,500	1,327,617	89,008	(15,426)	521,166	4,347,865
Total comprehensive income for the period						
Net profit for the period	-	-	-	-	69,970	69,970
Other comprehensive income						
Net change in fair value of available – for – sale investment	-	-	-	52	-	52
Total comprehensive income for the period	-	-	-	52	69,970	70,022
Transactions with owners recorded directly in equity						
Dividends paid	-	-	-	-	(133,402)	(133,402)
Issue of bonus shares	-	-	-	-	-	-
Board of directors' fees - paid	-	-	-	-	(2,470)	(2,470)
Total transactions with owners	-	-	-	-	(135,872)	(135,872)
As at 31 March 2011	**2,425,500**	**1,327,617**	**89,008**	(15,374)	455,264	4,282,015

The accompanying notes with the Ministry of Economy & Commerce interpretation of Article 118 of Commercial Companies Law No. 8 of 1984, Directors' remuneration has been treated as an appropriation from equity.

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

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 UAE Central Bank, which are carried out through its branches established in United Arab Emirates.

During the period the Group formed a fully owned subsidiary ("ASAS LLC" or "ASAS") incorporated in United Arab Emirates. The principle objective of the ASAS is to manage the real estate assets of the Bank. The operations of ASAS are yet to commence.

The condensed consolidated interim financial statements of the Bank comprise the Bank and its subsidiaries incorporated in United Arab Emirates, Sharjah National Hotels (SNH), Sharjah Islamic Financial Services LLC (SIFS), Contact Marketing and ASAS (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 provides certain support services to the Bank.

The registered office of the Bank is Post Box No.4, Sharjah, United Arab Emirates.

2. Basis of preparation

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial reporting Standards ("IFRS") IAS 34, Interim financial reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31st December 2010.

b) Key accounting estimates & judgment

The preparation of condensed consolidated interim 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 judgments relate to impairment losses on financing receivables and leased assets, impairment of available-for-sale equity investments, held-to-maturity investments, provisions for doubtful debts, valuation of investment properties and obsolete inventory.

3. Summary of significant accounting policies (continued)

Except as described below, the accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2010.

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. The change in accounting policy does not have a significant impact on these condensed consolidated interim financial statements

4. Segment reporting

The Group's activities comprise the following main business segments:

a. Government and corporate

Within this business segment the Bank provides companies, institutions and government 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 wakalah deals with other financial institutions, 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 SIFS is offering Brokerage services for trading in Islamic Sharia'a Compliant shares. ASAS is yet to commence it operations.

4. Segment reporting (continued)

	Corporate and Government	Retail	Investment and treasury	Subsidiaries	Total
Condensed consolidated interim statement of income for the three-month period ended 31 March 2011 (un-audited)					
Income from murabaha and leasing	92,617	75,787	13,970	-	182,374
Profit paid on sukuk	-	-	(2,168)	-	(2,168)
Fees, commission and other income	11,953	8,208	8,127	-	28,288
Income from subsidiaries	-	-	-	8,133	8,133
	104,570	**83,995**	**19,929**	**8,133**	**216,627**
Unallocated income	-	-	-	-	4,131
Total income	**104,570**	**83,995**	**19,929**	**8,133**	**220,758**
General and administrative expenses	-	-	-	(6,269)	(6,269)
General and administrative expenses - unallocated	-	-	-	-	(69,921)
Net operating income	**104,570**	**83,995**	**19,929**	**1,864**	**144,568**
Provisions - net of recoveries	(1,335)	(5,511)	(988)	(1,968)	(9,802)
Net profit before distribution to depositors	**103,235**	**78,484**	**18,941**	**(104)**	**134,766**
Distribution to depositors	(44,509)	(20,565)	(318)	-	(65,392)
Transfer from profit equalization reserve – unallocated	-	-	-	-	596
Net profit / (loss) for the period	**58,726**	**57,919**	**18,623**	**(104)**	**69,970**
Condensed consolidated interim statement of financial position As at 31 March 2011 (un-audited)					
Assets					
Segment assets	6,013,341	4,102,032	5,871,616	656,905	16,643,894
Unallocated assets	-	-	-	-	494,108
Total assets	**6,013,341**	**4,102,032**	**5,871,616**	**656,905**	**17,138,002**
Liabilities					
Segment liabilities	6,885,956	4,230,690	1,167,365	51,270	12,335,281
Unallocated liabilities	-	-	-	-	520,706
Total liabilities	**6,885,956**	**4,230,690**	**1,167,365**	**51,270**	**12,855,987**

4. Segment reporting (continued)

	Corporate and Government	Retail	Investment and treasury	Subsidiaries	Total
Consolidated statement of income For the three-month period ended 31 March 2010 (un-audited)					
Income from Murabaha and leasing	86,325	75,245	15,333	-	176,903
Profit paid on Sukuk	-	-	(2,074)	-	(2,074)
Fees, commission and other income	8,679	7,357	6,657	(469)	22,224
Income from Subsidiaries	-	-	-	10,044	10,044
	95,004	**82,602**	**19,916**	**9,575**	**207,097**
Unallocated income	-	-	-	-	630
Total income	**95,004**	**82,602**	**19,916**	**9,575**	**207,727**
General and administrative expenses	-	-	-	(7,876)	(7,876)
General and administrative expenses - unallocated	-	-	-	-	(59,311)
Net operating income	**95,004**	**82,602**	**19,916**	**1,699**	**141,216**
Provisions - net of recoveries	2,044	(2,322)	(155)	(1,444)	(1,877)
Net profit before distribution to depositors	**97,048**	**80,280**	**19,761**	**255**	**139,339**
Distribution to depositors	(48,953)	(19,293)	(2,536)	-	(70,782)
Transfer to profit equalization reserve - unallocated	-	-	-	-	(1,088)
Net profit for the period	**48,095**	**60,987**	**17,225**	**255**	**67,469**

Consolidated statement of financial position – audited

As at 31 December 2010

Assets					
Segment assets	5,358,240	4,144,693	6,000,424	667,485	16,170,842
Unallocated assets	-	-	-	-	496,319
Total assets	5,358,240	4,144,693	6,000,424	667,485	16,667,161
Liabilities					
Segment liabilities	6,351,989	4,049,260	1,502,920	47,925	11,952,094
Unallocated liabilities	-	-	-	-	367,202
Total liabilities	6,351,989	4,049,260	1,502,920	47,925	12,319,296

5. 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. At the reporting date, such significant balances include:

Condensed consolidated interim statement of financial position	31 March 2011 (Un-audited)	31 December 2010 (Audited)
Government of Sharjah receivables	**860,863**	865,113
Government departments and authorities receivables	**2,728,033**	2,288,786
Other financing receivables and investing activities	**502,357**	611,069
Government of Sharjah deposits	**90,720**	137,191
Government department & authority deposits	**2,169,346**	2,213,253
Other deposits	**173,831**	223,660
Contingent liabilities	**105,040**	42,845

Statement of income	31 March 2011 (Un-audited)	31 March 2010 (Un-audited)
Income from financing and investing activities	**71,746**	61,108
Depositors' share of profit	**11,034**	25,148

Key management compensation includes salaries and other short term benefits of AED 3.3 million for the period ended 31 March 2011 *(31March 2010: AED 3.2 million)* and post employment benefits of AED 0.4 million for the period ended 31 March 2011 *(31 March 2010: AED 0.1 million).*

6. Properties held-for-sale

These are properties which have been acquired for the purpose of sale after re-development and are stated at the lower of cost or net realizable value.

7. Proposed cash dividend and bonus share

In the Annual General Meeting of the bank held on 14th March 2011 the Shareholders amended the proposed dividend from 7% cash to 5.5% cash (AED 0.055 per share) amounting to AED 133.4 million for the year 2010, accordingly the accrued Zakat will increase by AED 943 thousand to reach AED 48.3 million.

8. Interim measurement

The nature of the Group's business is such that income and expense are incurred in a manner, which is not impacted by any form of seasonality. These condensed consolidated interim financial statements were prepared based upon an accrual concept, which requires income and expense to be recorded as earned or incurred and not as received or paid throughout the year.

9. Comparatives

Certain prior year/period comparatives have been reclassified in order to conform to current period's presentation.

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