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
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 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 (Attributable to the shareholders of the Bank)	**266,409**	**260,135**
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.

4. Summary of significant accounting policies (continued)

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.

4. Summary of significant accounting policies (continued):

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.

4. Summary of significant accounting policies (continued)

k. Distribution of profit between holders of unrestricted investment deposit and the shareholders

The Bank is complied with Shari'a rules as set out below:

Net gains on all items of income and expenses at the end of each month are the net profit distributable between the shareholders and the holders of unrestricted investment deposits.

- The share of the holders of unrestricted investment deposits is calculated 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.

4. Summary of significant accounting policies (continued)

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.

5. Risk management (continued):

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

5. Risk management (continued):

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**

5. **Risk management (continued):**

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.

5. **Risk management (continued):**

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

5. Risk management (continued):

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			
Change in fair-value of financial assets	1,443,117	89,008	883
Transfer to capital (bonus share)	(115,500)	-	(16,309)
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

30. Key accounting estimates, and judgments in applying accounting policies (continued)

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	Subsidia-ries	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.