SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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 2011.

Financial Highlights

The Group has reported a net profit of AED 251.1 million for year ended 31th December 2011 compared to AED 266.4 million for the corresponding prior year, a decrease of 5.7%.
Compared to December 2010, total assets increased by AED 1.1 billion to reach AED 17.7 billion, an increase of 6.4%, financing receivables and leased assets increased by 8.0 % (AED 773.7 million) to reach AED 10.4 billion.

During the year, the Bank successfully issued a Sukuk of US$ 400 million (equivalent to AED 1.5 billion) through a Shari'a compliant structure. The Sukuk will be maturing in 5 years i.e May 2016.

The Directors propose to the Shareholders a cash dividend of 6% of the par value of share (AED 0.06 per share) amounting to AED 145.5 million. *(compared to cash dividend of AED 133.4 million (AED 0.055 per share on 2010).*

The Directors propose the following appropriations for 2011 :-

	AED million
1) Proposed cash dividend	145.5
2) Zakat	49.8
3) Proposed Directors' fees	2.4
Total	197.7

After carrying forward the retained earnings from last year and the above proposed appropriations, total shareholders funds will amount to AED 4.2 billion.

Directors:-

H.H. Shaikh Sultan Bin Mohammed Bin Sultan Al Qassimi	Chairman
H.E. Abdul Rahman Mohammed Nasser Al Owais	Vice Chairman
Mr. Othman Mohammed Sharif Zaman	Member
Mr. Ahmed Ghanim Al Suwaidi	Member
Mr. Ali Bin Salim Al Mazrou	Member
Mr. Ahmed Mohamed Obaid Al Shamsi	Member
Mr. Jassar Dakhil Al Jassar	Member
Mr. Mohammad N. Al Fouzan	Member

Auditors:-

KPMG were appointed as auditors of SHARJAH ISLAMIC BANK for the year 2011 at the Annual General Meeting held on 14th March 2011.

KPMG expressed their willingness for their re-appointment for the year ending 31 December 2012.

On behalf of the board

Sultan Bin Mohammed Bin Sultan Al Qassimi
Chairman
28th January 2012

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011
(Currency: Thousands of U.A.E. Dirhams)

	Notes	2011	2010
Assets:			
Cash and balances with banks and financial institutions	6	1,770,432	1,921,694
Wakalah arrangements with financial institutions	7	2,341,534	2,242,617
Financing receivables	8	2,370,688	2,118,142
Leased assets	9	8,056,746	7,535,640
Investments securities	11	734,536	471,664
Investment properties	12	177,207	179,076
Properties held for sale	13	1,020,803	1,016,675
Other assets	14	408,198	360,777
Property and equipment	15	852,998	820,876
Total assets		**17,733,142**	**16,667,161**
Liabilities:			
Customers' deposits	16	10,398,853	10,378,134
Due to banks	17	900,972	677,089
Sukuk payable	18	1,463,062	825,831
Other liabilities	19	413,742	300,578
Zakat payable		150,355	137,664
Total liabilities		**13,326,984**	**12,319,296**
Shareholders equity:			
Share capital	20	2,425,500	2,425,500
Legal reserve	23	1,327,617	1,327,617
Statutory reserve	23	89,008	89,008
Fair value reserve	23	(20,481)	(15,426)
Retained earnings		584,514	521,166
Total shareholders equity:		**4,406,158**	**4,347,865**
Total liabilities and shareholders equity		**17,733,142**	**16,667,161**
Contingencies and commitments			
Letters of credit	33	153,106	136,647
Letters of guarantee	33	660,447	607,164
		813,553	743,811

The consolidated financial statements were authorized for issue in accordance with a resolution of Directors on 28th January 2012 and signed on its behalf by:

Sultan Bin Mohammed Bin Sultan Al Qassimi
Chairman

Mohammed Ahmed Abdullah
Chief Executive Officer

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

The independent auditors' report is set out on page 3.

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Independent auditors' report
The Shareholders
Sharjah Islamic Bank PJSC

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of Sharjah Islamic Bank PJSC ("the Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income (comprising a separate consolidated statement of income and a consolidated statement of comprehensive income), changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting principles used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2011, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Company and the UAE Federal Law No. 8 of 1984 (as amended).

Report on other legal and regulatory requirements
As required by the Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Group, and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Group's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2011, which may have had a material adverse effect on the business of the Group's or its consolidated financial position.

KPMG
By: Vijendra nath Malhotra
Registration No.:48B
28 JAN 2012

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011
(Currency: Thousands of U.A.E. Dirhams)

	Notes	2011	2010
Income from financing and leasing		731,066	724,787
Profit on sukuks		(49,112)	(9,127)
Fees, commission and other income	24	147,858	164,524
Total income		**829,812**	**880,184**
General and administrative expenses	25	(315,808)	(300,641)
Net operating income		**514,004**	**579,543**
Provisions - net of recoveries	26	(45,873)	(31,442)
Net profit before distribution to depositors		**468,131**	**548,101**
Distribution to depositors	27	(217,010)	(281,692)
Net profit for the year (Attributable to the shareholders of the Bank)		**251,121**	**266,409**
Basic and diluted earnings per share (U.A.E. Dirhams)	28	0.10	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 2011
(Currency: Thousands of U.A.E. Dirhams)

	2011	2010
Net profit for the year	**251,121**	**266,409**
(Attributable to the shareholders of the Bank)		
Other comprehensive income		
Net change in fair value reserve	(7,157)	(16,309)
Total comprehensive income for the year		
(Attributable to the shareholders of the Bank)	**243,964**	**250,100**

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

The independent auditors' report is set out on page 3.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011
(Currency: Thousands of U.A.E. Dirhams)

	2011	2010
Cash flows from operating activities:		
Net profit for the period	251,121	266,409
Adjustments:		
Depreciation	25,226	26,512
Amortization of sukuk issuance cost	1,496	737
Provision on customer receivables	36,345	46,589
Provision for impairment on investment securities	1,763	6,877
Revaluation loss on investment properties	1,869	-
Operating profit before changes in operating assets and liabilities	317,820	347,124
Changes in operating assets and liabilities:		
Change in reserve with Central Bank	(79,426)	(5,656)
Change in international murabaha and wakalah with financial institution	(65,814)	(287,134)
Change in financing receivables	(288,891)	460,466
Change in leased assets	(521,106)	(133,313)
Change in other assets	(47,421)	(12,714)
Change in customers' deposits	20,719	517,813
Change in due to banks	223,883	33,433
Zakat payable	12,691	(13,480)
Change in other liabilities	63,365	22,210
Net cash (used in) / provided by operating activities	(364,180)	928,749
Cash flows from investing activities:		
Acquisition of property and equipment	(57,349)	(117,803)
Acquisition in Investment proprieties - net	1,869	(22,440)
Acquisition in properties held for sale - net	(4,128)	(8,062)
Change in investments securities	(273,659)	26,907
Net cash used in investing activities	(333,267)	(121,398)
Cash flows from financing activity:		
Proceeds from Sukuk	635,735	-
Board of Directors' fees paid	(2,470)	(2,700)
Cash dividends	(133,403)	(115,500)
Net cash provided by / (used in) financing activity	499,862	(118,200)
Net (decrease) / increase in cash and cash equivalents	(197,585)	689,151
Cash and cash equivalents, beginning of the year	3,297,124	2,607,973
Cash and cash equivalents, end of year (note 29)	3,099,539	3,297,124

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

The independent auditors' report is set out on page 3.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
(Currency: Thousands of U.A.E. Dirhams)

	ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK					
	Share capital	Legal reserves	Statutory reserves	Fair value reserve	Retained earnings	Total shareholders equity
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	-	-	-	-	(48,346)	(48,346)
Directors' remuneration	-	-	-	-	(2,700)	(2,700)
Total Transactions with owners	115,500	(115,500)	-	-	(166,546)	(166,546)
As at 31 December 2010	2,425,500	1,327,617	89,008	(15,426)	521,166	4,347,865
As at 1 January 2011	2,425,500	1,327,617	89,008	(15,426)	521,166	4,347,865
fair value adjustment - IFRS - 9	-	-	-	2,102	(2,102)	-
As at 1 January 2011 (Restated)	2,425,500	1,327,617	89,008	(13,324)	519,064	4,347,865
Total comprehensive income for the year						
Profit for the year	-	-	-	-	251,121	251,121
Other comprehensive income						
Net change in fair value reserve	-	-	-	(7,157)	-	(7,157)
Total comprehensive income for the year	-	-	-	(7,157)	251,121	243,964
Transactions with owners recorded directly in equity						
Cash dividends paid (note 21)	-	-	-	-	(133,402)	(133,402)
Issue of bonus shares						
Zakat	-	-	-	-	(49,799)	(49,799)
Directors' remuneration (note 22)	-	-	-	-	(2,470)	(2,470)
Total Transactions with owners	-	-	-	-	(185,671)	(185,671)
As at 31 December 2011	2,425,500	1,327,617	89,008	(20,481)	584,514	4,406,158

In accordance with the Ministry of Economy & Commerce interpretation of Article 118 of Commercial Law No. 8 of 1984, Directors' remuneration has been treated as an appropriation from equity.

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 3.

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 (FVTPL);

ii) financial assets at fair value through other comprehensive income (FVTOCI); and

iii) investment properties.

c. Functional and reporting currency

These consolidated financial statements of the Group have been prepared in UAE Dirhams (AED), which is the Group's functional currency, rounded to the nearest thousand.

d. Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. In particular these estimates and judgements relate to impairment losses on financing receivables, leased assets and amortised cost, valuation of financial asset FVTPL and FVTOCI, provisions for doubtful debts and slow moving inventories.

e. Changes in accounting policies

Overview

Effective 1 January 2011, the Group has changed its accounting policies in the following areas:

- Financial assets and liabilities (early adoption of IFRS 9)
- Disclosure pertaining to Related parties – IAS 24 (revised)

i) Financial assets and liabilities (early adoption of IFRS 9)

Effective 1January 2011, the Group has early adopted IFRS 9 Financial Instruments issued in October 2010.

The requirements of IFRS 9 represent a significant change from the classification and measurement requirements in IAS 39 *'Financial Instruments: Recognition and Measurement'* in respect of financial assets. IFRS 9 contains two primary measurement categories for financial assets: amortised cost and fair value.

Unless it is designated as measured at fair value, a financial asset is measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal outstanding. All other financial assets are measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and receivables.

IFRS 9 requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

For investments in equity instruments that are not held for trading, IFRS 9 allows an irrevocable election, on an investment-by-investment basis, to present fair value changes from the investment in other comprehensive income. Dividends on such investments are generally recognised in profit or loss.

IFRS 9 requires that the effects of changes in credit risk of liabilities designated as at fair value through profit or loss are presented in other comprehensive income unless such treatment would create or enlarge an accounting mismatch in profit or loss, in which case all gains or losses on that liability is presented in profit or loss.

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

e. **Changes in accounting policies (continued)**

i) Financial assets and liabilities (early adoption of IFRS 9)

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied on a retrospective basis except as described below from 1 January 2011 without restatement of prior periods.

The changes are measured as at the first date of the current reporting period (1 January 2011).

- The assessment of whether a financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.

- The designation of certain investments in equity instruments that are not held for trading as at fair value through other comprehensive income.

- The determination of whether the existing designations of liabilities as at fair value through profit or loss would create or enlarge an accounting mismatch in profit or loss. As a result of this analysis no adjustments were required to be made.

Change resulting from assessments made at the date of initial application (1 January 2011) and measured at the date of initial application - investments in unquoted equity instruments, which were previously accounted for at cost in accordance with IAS 39, are now measured at fair value.

Differences between the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in opening retained earnings for the year ended 31 December 2011, i.e. as at 1 January 2011. The provisions of IFRS 9 have not been applied to financial assets and financial liabilities derecognised before 31 December 2010.

The provisions of IFRS 9 have not been applied to the financial assets and financial liabilities decrecognised before 31 December 2010.

For more information and details in new classification, see note 4, 11 and 31.

The change in accounting policy does not have any material impact on basic and diluted earnings per share for the year.

The change in accounting policy has been applied retrospectively, in accordance with the transitional provision of IFRS 9, where no restatement of comparative figures was applied.

The impact of this change in accounting policy at the beginning of the current year (as at 1 January 2011) is as follows:

	fair value reserve	Retained earnings
• AFS Investment - cumulative fair value impacts earlier accounted in other comprehensive income	5,447	(5,447)
• AFS Investment - cumulative impairment loss impact earlier accounted in consolidated statement of income	(3,345)	3,345
	2,102	(2,102)

ii) Disclosures pertaining to related parties - IAS 24 (Revised)

The Group adopted IAS 24 (Revised): Related Party Disclosures. The Group now discloses government related entities in accordance with the amended definition of related party.

The change in accounting policy was recognised retrospectively in accordance with the transitional provisions of the IAS 24 (Revised): Related Party Disclosures.

For more information and details in new classification, see note 34.

4. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented except as explained in 3(e), which addresses changes in accounting policies.

4. Summary of significant accounting policies (continued)

a. Basis of consolidation

i) Subsidiaries

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Subsidiaries are consolidated on a line-by-line basis.

ii) Funds management

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's funds management is set out in note 35.

iii) Transaction eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

iv) Special purpose entities

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific financing transaction. The consolidated financial special purpose entities are included in the Group's consolidated financial statement where the substance of the relationship is the Group controls the special purpose entity.

b. Non-derivative financial instruments

i. Financial assets and liabilities (early adoption of IFRS 9)

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

Investments in equity instruments are classified as financial assets at fair value through profit or loss, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI).

Financial assets measured at FVTPL are measured at fair value, with any gains or losses arising in re-measurement recognised in the consolidated statement of income.

Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated statement of income.

Financial assets at fair value through other comprehensive income (FVTOCI)

At initial recognition, the Group can make an irrevocable election (on instrument by instrument basis) to designate other investments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

Financial assets measured at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income.

Dividends on these investments in equity instruments are recognised in the consolidated statement of income.

Financial assets measured at amortised costs

A financial asset shall be measured at amortised cost if both of the following conditions are met:

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

4. Summary of significant accounting policies (continued)

b. Non-derivative financial instruments (continued)

i. Financial assets and liabilities (early adoption of IFRS 9) (continued)

Financial assets measured at amortised costs are initially measured at fair value plus transaction costs. Subsequently, they are measured at amortised costs using the effective yield method less any impairment, with profit recognised on effective yield basis in the consolidated statement of income.

Subsequent to the initial recognition, the Group is required to reclassify investments from amortised costs to FVTPL, if the objective of the business model changes so that the amortised cost criteria is no longer met.

Financing receivables

Financing receivables are non derivative financial assets with fixed or determinable payment that other than investment securities that are not held for trading. They arise when the Bank provides funds directly to a debtor with no intention of trading in the granted facilities. Financing receivables are initially measured at fair value and subsequently measured at their amortised cost. These are reported net of impairment provisions, if any, to reflect the estimated recoverable amounts. The financing receivables mainly comprise Murabaha and Qard Hasan.

Murabaha is an agreement for sale of commodities purchased by the Bank based on the promise of the customer to buy the commodities at cost plus the agreed profit.

Qard Hasan receivables are non-profit bearing financing receivables whereby the customer borrows funds for a period of time with an understanding that the same amount shall be repaid at the end of the agreed period.

Leased assets ("Ijarah")

The Lease is classified as a finance lease, when the Bank transfers substantially all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represent finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. The lease agreements provide that the lessor undertakes to transfer the leased property to the lessee upon receiving the final rental payment or the agreed price. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

ii. Financial assets and liabilities as per IAS 39 (for comparative purpose only)

Held-to-maturity financial assets

Held-to maturity financial assets are non derivative financial assets with fixed or determinable payment and fixed maturities that the Bank's management has the positive intent and ability to hold to maturity.

Financial assets at fair value through profit or loss

Financial assets are classified in this category if acquired principally for the purpose of selling in the short term or if so designated by the management.

Available-for-sale financial assets

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

Gains and losses on subsequent measurement

Gains and losses arising in the fair value of financial assets at fair value through profit or loss are recognised in the consolidated statement of income.

b. Non-derivative financial instruments (continued)

ii. Financial assets and liabilities as per IAS 39 (for comparative purpose only)

Gains and losses on subsequent measurement (continued)

Gains and losses arising in the fair value of available-for-sale financial assets are recognised in consolidated statement of comprehensive income through other comprehensive income (OCI) until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the consolidated statement of income.

Impairment

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment for specific assets, or a group of similar assets. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of specific assets or a group of similar assets is calculated as the present value of the expected future cash flows.

Movement in provisions is recognised in the consolidated statement of income. Financial assets are written off only in circumstances where all reasonable restructuring and collecting activities have been exhausted.

Available-for-sale financial assets are re-measured to fair value in the consolidated statement of comprehensive income through other comprehensive income.

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

iii. Recognition of financial instruments

Investment are recognised on the trade date which is the date on which the Group commits to purchase or sell the securities. Financing receivables and leased assets ("Ijarah") are recognised when cash is advanced to the borrowers.

Financial liabilities are recognised on the date when the Bank becomes a party to the contractual provisions of the instrument.

iv. Derecognition of financial instruments

The Group derecognises financial assets when the contractual right to the cash flows from the financial assets expire, or when it transfers the rights to receive the contractual cash flows on the financial assets in a transaction in which substantially all the risk and rewards of the ownership of the financial assets are transferred to other party.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

v. Fair value measurement principles

Fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income is based on quoted market price at the reporting date without any deduction for transaction costs. If quoted market price is not available, the fair value of the instrument is estimated using pricing models or appropriate discounted cash flow techniques. Investments in other unlisted investment funds are recorded at the net asset value per share as reported by the managers of such fund.

vi. Measurement of financial instruments

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Subsequent to the initial recognition, financial assets at fair value through profit or loss and fair value at other comprehensive income are stated at their fair value. All other financial instruments are measured at amortised cost less impairment loss, if any.

c. Investment properties

Investment properties are stated at fair value determined regularly by an independent valuer. Fair value is based on current prices in an active market for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the consolidated statement of income. Further the management assessed the fair values of investment properties internally to reflect the current market conditions.

c. Investment properties (continued)

Leases of assets under which the lessor effectively retains all risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in the consolidated statement of income on a straight-line basis over the term of the lease.

d. Properties held-for-sale

Properties held for sale are measured at a lower of cost and net realizable value (NRV) less impairment loss, if any.

NRV is the estimated selling price, less the estimated selling and other expenses necessary to complete the sale.

e. Revenue recognition

Murabaha

The profit is quantifiable and contractually determined at the commencement of the contract; profit is recognised as it accrues over the period of the contract on effective yield method on the balance outstanding.

Leased assets ("Ijarah")

Income from leased assets is recognised on an accrual basis on effective yield method.

Fees and commissions

Fees and commissions income relating to underwriting and financing activities has been accounted from the date of transaction when the service has been provided by the Group, giving rise to that income.

Rental income

Rental income from investment properties are recognised in the consolidated statement of income on a straight-line basis over the term of the leases.

Dividends income

Dividends income is recognised in the consolidated statement of income when the Group's right to receive income is established. Usually this is the ex-dividend date for equity security.

Other income

Other income includes revenue from provision of accommodation, food, beverages and brokerage commission relating to the services provided by the subsidiaries.

Revenue from provision of accommodation, food, beverages and other services is recognised on an accrual basis as the services are rendered.

Commissions are accounted for on the completion of the brokerage deal.

f. Zakat

Zakat is computed in accordance with the Bank's Articles of Association and is approved by the Bank's Fatwa and Shari'a Supervisory Board. Zakat is calculated at 2.577% (to account for the difference between the Gregorian and Lunar calendar) on the Bank's reserves, retained earnings and provision for staff end of service benefits at the year end and it is the Bank's shareholders responsibility to pay the Zakat on their respective share in the Bank's capital and the distributed cash dividends.

g. Translation of foreign currencies

The accounting records of the Group are maintained in UAE Dirhams. Transactions in foreign currencies are translated to UAE Dirhams at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to UAE Dirhams at the foreign exchange ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost, are translated to UAE Dirhams at the foreign exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

h. Other assets

Other assets include profit and other receivables which are stated at amortised cost net of provision for impairment, if any.

4. Summary of significant accounting policies (continued):

i. Other liabilities

These include financial liabilities and other payables. Financial liabilities are measured at fair value on initial recognition. Fair value is determined by discounting the present value of expected future payments at the discount rate that reflects current market assessment of the time value of money for liability of equivalent average duration.

Subsequent to initial recognition these financial liabilities are stated at amortised cost using the effective yield method.

Other payables are stated at cost and are recognised for amounts to be paid in the future for goods or services received, whether or not billed.

j. Provisions

A provision is recognised if, the result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at the rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

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

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

- The share of the holders of unrestricted investment deposits is calculated out from the net profit on daily basis after deducting the Bank's Mudaraba percentage agreed upon and declared.
- Due to amalgamation with unrestricted investment funds with the Bank's funds for the purpose of investment, no priority has been given to either party in the appropriation with profit.

l. Provision for end-of-service benefits

Provision is made for end-of-service benefits payable to expatriate employees in accordance with the U.A.E. labour laws, calculated on the basis of the individual's period of service at the reporting date and included under "Other liabilities".

With respect to its UAE national employees, the Bank makes contributions to the pension fund established by the General Pension and Social Security Authority as percentage of the employees' salaries. The Bank's obligation is limited to these contributions, which are recognised in the consolidated statement of income.

m. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any. Except for freehold land, property and equipment are depreciated on a straight-line basis over their estimated useful lives, using annual rates of 5% to 33% depending on the type of asset involved.

Property that is being constructed or developed for future use as investment property is classified as property and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

n. Cash and cash equivalents

Cash and cash equivalents consist of cash and balances with the CBUAE (excluding statutory reserves), current accounts with other banks and financial institutions, and wakalah arrangements with residual maturity up to three months from the reporting date.

o. Due to Banks

Amounts due to banks are initially recognised at cost, being the fair value of the consideration received, and are subsequently measured at amortised cost using the effective yield method.

p. Customers' deposits

The Bank accepts customer savings and time deposits accounts are on Mudaraba basis, where as current and other similar in nature deposits are accepted on Qard Hassan (profit free loan) basis.

q. Offsetting

Financial assets and liabilities are set off and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts.

Income and expenses are presented on a net basis only when permitted by the accounting standards.

4. Summary of significant accounting policies (continued)

r. Fiduciary activities

The Bank is involved in fiduciary activities in its capacity as a portfolio agent that results in the holding or placing of assets on behalf of customers in an equity portfolio. These assets and income arising thereon of the equity portfolio are excluded from these consolidated financial statements, as they are not assets of the Bank.

s. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary share. Basic EPS is calculated by dividing the profit or losses attributable to ordinary shareholders of the Bank by the weighted average number of ordinary share outstanding during the year. Diluted EPS is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

t. Segment reporting

A segment reporting is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), which is subject to risk and rewards that are different from those of other segments. The Bank's primary format for segment reporting is based on business segments.

u. New standards and interpretations not yet adopted

A number of new standards, amendments to standard and interpretations are not yet effective for the year ended 31 December 2011, and have not been early adopted by the Group in preparing these consolidated financial statements:

Standard	Description	Effective date
IFRS–9 (phase 2)	Amortised cost and impairment of financial instrument	1 January 2015
IFRS-10	Consolidated Financial Instruments	1 January 2013
IFRS-12	Disclosure of interest in other entities	1 January 2013
IFRS-13	Fair value measurement	1 January 2013

Management has assessed the impact of the new standards, amendments to standards and interpretations and amendments to published standards, and concluded that they are either not relevant to the Company or their impact is limited to the disclosures and presentation requirement in the financial statements.

5. Risk management

i. Risk management framework

The Board of Directors ('the Board") is responsible for the overall framework of the risk governance and management. The Board is responsible for determining risk strategy, setting the Group's risk limits and ensuring that risk exposure is monitored, controlled effectively and kept within set limits. It is also responsible for establishing a clearly defined risk management structure and for approval of the risk policies and procedures, infrastructure and management of all risks related to the Group.

In order to effectively discharge this responsibility the Board is assisted by three Board Committees and five Management Committees. The briefing about the role and function of each committee is as follows:

Executive Committee (EC)

EC acts as the Board's senior executive management assuring that the Board meets its strategic and operational objectives. EC consists of four member.

5. Risk management (continued)

i. Risk management framework (continued)

Audit Committee (AC)

The AC consists of Board members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the Group's financial reporting processes, maintaining accounting policies, reviewing and approving the financial information;
- Reviewing reports on the internal controls;
- Managing the relationship with the Group's external auditors; and
- Reviewing the internal audit reports and monitors control issues of major significance of the Group.

Risk Management Committee (RMC)

The RMC consists of Board Members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the risks inherent in the businesses of the Bank and the control processes with respect to such risks;
- Reviewing the risk profile of the Bank;
- Managing the Risk Management Compliance and control activities of the Bank;
- Providing a critical assessment of the organisation's business strategies and plans from an Enterprise risk perspective; and
- Ensuring that appropriate policies and procedures are in place for managing risks to which the bank is exposed.

Management Committee (MC)

The scope of management committee includes all cross functional issues that are not covered in the scope of other committees. Typically, MC covers the areas like strategic, policies, human resources, marketing and administrative processes. In addition, the MC is also responsible to liaise with all other units/divisions across the Group.

Investment Committee (IC)

The purpose of IC is to review the investment portfolio and transactions emanating from investment division on behalf of Board of Directors.

IT Steering Committee (ITSC)

The ITSC provides strategic and tactical guidance for managing the Group's overall technology systems in the long and short term, to ensure that Information Technology (IT) initiatives are consistent with the strategic business goals of the Group. The ITSC is charged with assisting the Board in:

- Providing guidance in the prioritisation and implementation of technology initiatives and projects (including those related to infrastructure);
- Reviewing IT operations;
- Reviewing IT Security plans, policies and reports relating to the effectiveness of information security, their implementation and measures taken to address any residual risks;
- Reviewing Business Continuity plans, policies and reports relating to the effectiveness of business continuity, their implementation and measures taken to address any residual risks; and
- Reviewing the Group's IT development, strategic opportunities and plans.

Asset and Liability Committee (ALCO)

The objective of ALCO is to derive the most appropriate strategy for the Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of profit rate movements, liquidity

5. Risk management (continued)

i. Risk management framework (continued)

*Asset and Liability Committee (ALCO)***(continued)**

constraints, and foreign exchange exposure and capital adequacy. The ALCO is also responsible to ensure that all strategies conform to the Group's risk appetite and levels of exposure as determined by the Board of Directors. The roles of ALCO include the following:

- Develop an effective asset and liability management process and related procedures to oversee and monitor the Group's approved policies and procedures in relation to the management and control of the following risks:
  - Liquidity risk – being the risk from the Group's inability to meet obligations when they become due without incurring unacceptable losses because of an inability to liquidate assets or to obtain adequate funding;
  - Market risk – being the following risks;
    - The risk to earnings from adverse movements in profit rates, exchange rates and market volatility and;
    - The risk from changes in the value of portfolio of financial instruments;
  - Statement of financial position risk - being the following risks:;
    - The risk to earnings from changes in profit rates and market volatility in retail and wholesale rates;
    - The risk to value and capital from changes in the value of assets and liabilities as a result of changes in profit rates and market volatility; and
    - The risk from material changes in global and domestic economic conditions generally.

Credit Committee (CC)

CC manages the credit risk of the Group by continuous review of credit limits, policies and procedures, the approval of specific exposures and work out situation, constant revaluation of the loans portfolio and the sufficiency of provisions thereof.

Human Resource Committee (HRC)

HRC manages the resources, performance and requirement of individuals required by Group on time to time basis.

- Enterprise risk management division (ERMD)

In order to manage the credit, market, operational and IT risks an ERMD is in place. Its role includes the following:

- develop a strategy, policy and framework for risk management such that these are aligned with business requirements;
- provide support to the Group in implementation of the framework;
- bring together analysis of risk concentrations and sensitivities across the Group;
- act as a point of reference for risk and control matters, providing advice to management, sharing best practices and carrying out special reviews as directed by ALCO; and
- provide independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner.

- Internal audit

The role of the internal audit department within the Group is to provide independent and objective assurance that the process for indentifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides a independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures. It also provides consulting services which are advisory in nature, and are generally performed at the specific request of the AC.

5. **Risk management (continued)**

i. **Risk management framework (continued)**

- *Internal audit* (continued)

It is led by the head of internal audit who reports to the AC of the Board of Directors, with administrative reporting to the Chief Executive Officer (CEO).

To perform its role effectively, internal audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel.

- Internal control

The role of the internal control department is to ensure that the Group has a sound internal control system in place, meeting international standards and fulfilling the requirements of the Group's management and external regulatory bodies. The functions and responsibilities of the Internal control department include:

- Ensuring that the Group's operational policies, processes and controls are adhered to;
- Ensuring that proper internal controls are in place and that they are functioning as designed in a timely and effective manner;
- Periodic review of the Group's internal control system in order to identify areas where internal controls may be weak, not present and areas where there appear to be excessive controls resulting in operational inefficiency so as to suggest ways to rectify the same;
- Enable the management to conduct an annual review of the efficiency of the internal control system and report its findings; and
- Follow up of the operational activities from a preventive and detective angle and oversee operational controls being exercised to ensure that these are timely and effective.

- Compliance

The overall mission and role of compliance is to:

- ensure compliance risks are adequately identified, assessed, monitored and controlled in conjunction with Business and other control functions;
- ensure senior management is fully informed of significant compliance issues including "KYC" and "AML", and plans for their resolution;
- contribute to a "no surprise" compliance culture by educating and communicating compliance awareness throughout the Group;
- align annual compliance plans with business strategies and goals; and
- meet regulatory expectations.

ii. Financial risk management

The Group has exposure to the following primary risks from its use of financial instruments:
Credit risk;
Liquidity risk;
Market risk; and
Operational risk.

Risk is inherent to the Group's business and activities. The Group's ability to identify, assess, monitor and manage each type of risk to which the Group is exposed is an important factor in its financial stability, performance and reputation.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

This note presents information relating to the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

5. **Risk management (continued)**

ii. Financial risk management (continued)

a. **Credit risk**

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's financing receivables, leased assets, Wakalah arrangements with financial institutions and in debt securities.

The Group manages its credit risk exposure through diversification of its financing activities and investments to avoid concentration of risk with individuals or group of customers in specific location or business.

In addition, the Group manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

Regular audits of business units and Group credit processes are undertaken by internal audit division.

Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentration of credit risk by industrial sector for financing receivables and leased assets are presented in notes 8b and 9b.

Concentration of credit risk by geographical distribution of due from banks and wakalah arrangements with financial institutions is set out in note 6 and 7.

The Group measure its exposure to credit risk by reference to gross carrying amount of financial assets less amounts offset, profit suspended and impairment losses, if any.

Collaterals

The Group holds collateral against financing receivable and leased assets *(Ijarah)* in the form of cash margins, personal guarantees, and mortgages over properties or other securities over assets. Estimates of credit risk mitigation relating to financing receivables and leased assets are based on the value of collateral assessed at the time of financing, and are subsequently monitored on a periodic basis. A quantification of the extent to which collateral and other credit enhancements mitigate credit risk is shown below:

	Against neither past due nor impaired		Against past due but not impaired		Against individually impaired	
	2011	2010	2011	2010	2011	2010
Mortgage of property	5,041,243	3,386,342	1,919,762	1,458,865	253,230	208,088
Listed shares	140,216	260,652	72,379	127,212	-	-
Cash lien and others	74,769	67,282	-	-	-	-
Carrying amount	**5,256,228**	**3,714,276**	**1,992,141**	1,586,077	253,230	208,088

Impairment of financial Assets

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment for specific assets, or a group of similar assets. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of specific assets or a group of similar assets is calculated as the present value of the expected future cash flows.

Financial assets are written off only in circumstances where all reasonable restructuring and collecting activities have been exhausted.

Financial assets with renegotiated terms

Financial assets with renegotiated terms are those that have been restructured due to deterioration in the borrower's financial position and where the Group has made concession that it would not otherwise consider.

5. Risk management (continued)

ii. Financial risk management (continued)

a. Credit risk (continued)

	Bank and financial institutions		Investment securities		Financing receivable and leased assets		Loans and advances	
	2011	2010	2011	2010	2011	2010	2011	2010
Carrying amount	2,362,688	2,578,566	189,159	169,778	10,427,434	9,653,782	-	-
Individually impaired								
Substandard	-	-	-	-	276,745	136,971	26	26
Doubtful	-	-	-	-	118,930	115,730	9,414	10,489
Loss	-	-	-	-	5,824	2,776	222,288	229,793
Gross amount	-	-	-	-	401,499	255,477	231,728	240,308
Profit in suspense	-	-	-	-	(7,907)	(6,241)	(74,380)	(79,049)
Specific allowance for impairment	-	-	-	-	(132,709)	(113,903)	(157,342)	(161,253)
Total	-	-	-	-	260,883	135,333	6	6
Neither past due nor impaired	2,362,688	2,578,566	189,159	169,778	10,235,804	9,565,945	-	-
Collective allowance for impairment	-	-	-	-	(69,253)	(47,496)	(6)	(6)
Carrying amount	**2,362,688**	**2,578,566**	**189,159**	**169,778**	**10,427,434**	**9,653,782**	-	-
Includes accounts with renegotiated terms	-	-	64,123	-	527,916	792,961		-
Past due but not impaired more than 90 days:	-	-	-	-	523,141	480,225	-	-

Bank and financial institutions exclude cash in hand and cash reserve deposits with the CBUAE.

The Group's exposure to credit risk relating to off balances sheet commitments are disclosed in note 33. These are neither past due nor impaired

Settlement risk

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

For certain types of transactions the Group mitigates this risk by ensuring that a trade date is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit

limits monitoring process. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group risk.

5. Risk management (continued)

ii. Financial risk management (continued)

b. Liquidity risk

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

The Group's approach to managing liquidity risk is to ensure that, management has diversified funding sources and closely monitors liquidity to ensure adequate funding.

All liquidity policies and procedures are subject to review and approval by ALCO.

Exposure to liquidity risk

The Group's contractual maturities of financial instruments are summarised in the table below based on the contractual repayment arrangements and does not take account of the effective maturities as indicated by the Group's deposit retention history. The contractual maturities of financial instruments have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is to be maintained.

31 December 2011	Less than 3 months	3 months to 1 year	1-5 Year	Over 5 Year	Total
Assets					
Cash and balances with banks and financial institutions	1,153,556	616,867	9	-	1,770,432
Wakalah arrangements with financial institutions	1,988,586	352,948	-	-	2,341,534
Financing receivables	651,251	131,992	1,572,141	15,304	2,370,688
Leased assets	376,846	164,771	2,924,280	4,590,849	8,056,746
Investments securities	142,297	91,566	500,673	-	734,536
	4,312,536	1,358,144	4,997,103	4,606,153	15,273,936
Liabilities and equity					
Customers' deposits	8,711,235	1,686,695	923	-	10,398,853
Due to banks	900,972	-	-	-	900,972
Sukuk payable	-	-	1,463,062	-	1,463,062
Other liabilities and zakat	366,354	-	197,743	-	564,097
	9,978,561	1,686,695	1,661,728	-	13,326,984

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	-	102,619	-	438,242
	9,142,732	3,073,945	102,619	-	12,319,296

Cash and balances with banks and financial institutions include mandatory deposits with the CBUAE (refer note 29). The Group's expected cash flows may vary from this analysis, for example, demand deposits from customers are expected to maintain a stable or increasing balance.

5. **Risk management (continued)**

ii. Financial risk management (continued)

c. Market risks

Market risk is the risk that the Group's income and / or value of a financial instrument will fluctuate because of changes in market prices such as profit rates, foreign exchange rates and market prices of equity.

Profit rate risk

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

The Bank is not significantly exposed to risk in terms of the re-pricing of its liabilities since primarily in accordance with Islamic Shari'a, the Bank does not provide a contractual rate of return to its depositors.

Currency risk

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

The Board of Directors has set limits on positions by currency. Positions are closely monitored by assets and liabilities committee to ensure positions are maintained within established limits.

At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

	Net position	
Currency	**2011**	**2010**
US dollar	(432,935)	(3,547)
Sterling pound	165	67
Euro	1,837	(79)
Bahrani Dinar	7,418	6,711
Qatari Riyal	349	189
Saudi Riyals	151	1,584
Kuwaiti Dinar	32,558	35,736
Omani Riyal	26,540	26,439

The exchange rate of AED against US Dollar is pegged since November 1980 and the Group's exposure to currency risk is limited to that extent.

Equity price risk

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

The table summarises the impact of change in equity prices by ±10% on net profit and other comprehensive income of the Group.

	2011		**2010**	
	Effect on net profit	Effect on other comprehensive income	Effect on net profit	Effect on other comprehensive income
Financial assets at fair value through profit or loss	6,658	-	66	-
Financial assets at fair value through other comprehensive income	-	21,051	-	-
Available for sale financial assets (for comparative only)	-	-	-	30,122

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

ii. Financial risk management (continued)

d. Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business entities.

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

The Group has established a framework of policies and procedures to identify, assess, control, manage and report risks. The Risk Management Committee identify and manage operational risk to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance.

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

iii. Capital management

Regulatory capital

The Group's lead regulator, the CBUAE, sets and monitors regulatory capital requirements.

The Group's objectives when managing capital are as follows:

- Safeguard the Group's ability to continue as a going concern and increase returns for shareholders; and
- Comply with regulatory capital requirements set by the CBUAE.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group's regulatory capital adequacy ratio is set by the CBUAE. The Bank has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the year. The Group has adopted a standardized approach for Credit risk and Market risk and a Basic Indicator approach for Operational Risk as a starting point and is working towards migrating to foundation internal rating based (IRB) and advanced IRB by 2011 and 2016 respectively. There have been no material changes in the Group's management of capital during the year, however during last year, the CBUAE has advised that the capital adequacy ratio should be increased to 11% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 7% by 30 September 2009 and 12% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 8% by 30 June 2010.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, translation reserve and retained earnings
- Tier 2 capital, which includes fair value reserves relating to unrealised gains / losses on financial assets classified as FVTPL, FVTOCI and collective impairment provision.

The following limits have been applied for Tier 2 capital:

Total tier 2 capital shall not exceed 67% of tier 1 capital

Subordinated liabilities shall not exceed 50% of total tier 1 capital

Collective impairment provision shall not exceed 1.25% of total risk weighted assets.

5. **Risk management (continued)**

iii. Capital management (continued)

The table below summarises the composition of regulatory capital of the Group:

	Basel II		Basel I	
	2011	2010	**2011**	2010
Tier 1 capital				
Ordinary share capital	2,425,500	2,425,500	2,425,500	2,425,500
Retained earnings	375,238	303,103	375,238	303,103
Statutory and special reserve	89,008	89,008	89,008	89,008
Legal Reserve	1,307,136	1,312,191	1,324,583	1,327,615
Total tier 1 capital base	**4,196,882**	**4,129,802**	**4,214,329**	**4,145,226**
Tier 2 capital				
Fair value reserve	-	-	(20,481)	(15,426)
Collective impairment provisions	69,259	47,502	-	-
Total tier 2 capital base	69,259	47,502	(20,481)	(15,426)
Total capital base (a)	**4,266,141**	**4,177,304**	**4,193,848**	**4,129,800**
Risk weighted assets:				
On balance sheet	**18,171,064**	**16,743,999**	18,152,677	16,696,502
Off balance sheet	**801,159**	**752,927**	226,895	277,021
Credit risk	**11,082,940**	**10,769,632**	9,531,778	9,357,724
Market risk	**359,367**	**38,586**	-	-
Operational risk	**745,692**	**945,689**	-	-
Risk weighted assets	**12,187,999**	**11,753,907**	**9,531,778**	**9,357,724**
Tier 1 ratio	**34.43%**	**35.14%**	**44.21%**	**44.30%**
Capital adequacy ratio	**35.00%**	**35.54%**	**44.00%**	**44.13%**

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%.

Claims on banks

Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims denominated in local currency were assigned more favorable risk weighting. No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

Claims on corporate portfolio

Claims on corporate are risk weighted in accordance with ratings from acceptable ECAIs. Risk weightings for unrated corporate claims are assigned at 100%.

Claims on regulatory retail exposures

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except for past due loans), if it meets the criteria mentioned in the CBUAE BASEL-II guidelines.

Claims secured by residential property

A preferential risk weight of 35% was applied on claims that did not exceed AED 10 million and the claim was secured by residential property with LTV of up to 85%. Other claims secured on residential property were risk weighted 100%.

Claims secured by commercial property

100% risk weight was applied on claims secured by commercial property.

Past due exposures

The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk weighted as follows :

150% risk weight when specific provisions are less than 20% of the outstanding amount of the financing; and

100% risk weight when specific provisions are greater than 20% of the outstanding amount of the financing.

Equity portfolios

0% risk weight was applied on equity in trading book. Equity in banking book was risk weighted at 100%.

The risk weighted at 100% for other exposures.

5. Risk management (continued):

iii. Capital management (continued)

Risk weighted assets as per standardized approach is set out below:

2011

Assets classes (on net basis)	On balance sheet - net	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assets
			Exposure before CRM	CRM	After CRM	
Claims on sovereigns	3,452,923	99,968	3,552,891	(25)	3,552,866	-
Claims on non-central government public sector entities (PSES)	1,969,742	1,014	1,970,756	-	1,970,756	19,100
Claims on banks	2,462,659	9,794	2,472,453	-	2,472,453	879,117
Claims on corporate	1,911,297	641,674	2,552,971	(72,388)	2,480,583	2,480,583
Claims included in the regulatory retail portfolio	2,700,648	48,449	2,749,097	(150,653)	2,598,444	2,523,636
Claims secured by residential property	47,885	-	47,885	-	47,885	42,567
Claims secured by commercial real estate	1,346,391	-	1,346,391	-	1,346,391	1,346,391
High risk categories	18,825	-	18,825	-	18,825	28,238
Past due loans	783,994	260	784,254	-	784,254	1,161,587
Other assets	3,104,362	-	3,104,362	-	3,104,362	2,601,721
Total claims	17,798,726	801,159	18,599,885	(223,066)	18,376,819	11,082,940
Total credit risk						11,082,940

2010

Assets classes (on net basis)	On balance sheet - net	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assets
			Exposure before CRM	CRM	After CRM	
Claims on sovereigns	2,447,191	41,021	2,488,212	(25)	2,488,187	-
Claims on non-central government public sector entities (PSES)	2,113,606	303	2,113,909	-	2,113,909	22,528
Claims on banks	2,682,163	13,893	2,696,056	-	2,696,056	1,004,999
Claims on corporate	1,950,179	645,113	2,595,292	(177,549)	2,417,743	2,417,743
Claims included in the regulatory retail portfolio	2,447,398	52,507	2,499,905	(284,181)	2,215,724	2,141,741
Claims secured by residential property	73,782	-	73,782	(824)	72,958	66,342
Claims secured by commercial real estate	1,524,342	-	1,524,342	(1,083)	1,523,259	1,523,259
High risk categories	18,825	-	18,825	-	18,825	28,237
Past due loans	612,902	90	612,992	(45)	612,947	905,514
Other assets	2,873,611	-	2,873,611	-	2,873,611	2,659,269
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):**

iii. Capital management (continued)

Risk weights for market risk

Capital requirement for market risk is calculated using standardized approach. The capital requirement for market risk is analysed into capital requirement for profit rate risk, equity risk, foreign exchange risk and option risk.

A summary of capital requirement for market risk under standardized approach under Basel II is set out below

	2011	2010
Profit rate trading risk		
Equity position risk	357,568	8,740
Foreign currency risk	1,799	29,846
	359,367	38,586

Risk weight for operation risk

Capital requirement for operation risk is calculated using basic indicator approach. The total capital requirement is calculated as 15% of last three years average income amounts to AED 745.7 thousand *(2010: AED 945.7 thousand)*

6. **Cash and balances with banks and financial institutions:**

Cash	234,514	204,276
Deposits with CBUAE	1,514,764	1,381,469
Due from banks	21,154	335,949
	1,770,432	1,921,694
Due from banks - by geographical distribution		
Within UAE	-	327,799
GCC Countries	1,075	3,509
Europe	6,186	2,731
North America	1,721	711
Others	12,172	1,199
	21,154	335,949

7. **Wakalah arrangements with financial institutions:**

Wakalah arrangements represent transactions with local and international banks with residual maturity less than one year from the reporting date.

Wakala arrangements	2,341,534	2,242,617
	2,341,534	2,242,617
Wakalah arrangements with financial institutions by geographical distribution:		
Within UAE	1,335,072	1,845,711
GCC Countries	951,050	396,906
Others	55,412	-
	2,341,534	2,242,617

8. **Financing receivables :**

Financing receivables are secured by acceptable forms of collateral to mitigate the related credit risk. Financing receivables comprise the following:

a) By type

Qard Hasan	250,133	149,255
Murabaha receivables	2,231,254	2,056,968
Visa receivables	36,017	39,195
Istisna	7,038	8,263
Provision for impaired financing receivables	(153,754)	(135,539)
	2,370,688	2,118,142

8. **Financing receivables (continued):**

b) By sector

	2011	2010
Other Government departments	99,992	10,122
Construction	111,016	133,207
Manufacturing	120,120	29,253
Transportation	66,333	59,430
Real Estate	27,128	19,760
Trading	342,758	380,731
Other Services	162,800	147,558
Personal	1,482,759	1,362,755
Others	111,536	110,865
Provision for impaired financing receivables	(153,754)	(135,539)
	2,370,688	2,118,142

c) Impairment provision for financing receivables

Balance, beginning of the year	135,539	109,394
Written off during the year	(761)	(297)
Additional provision for the year	36,400	32,775
Recoveries and write-backs during the year	(17,424)	(6,333)
	153,754	135,539

9. **Leased assets:**

Leased assets are finance leases, which comprise the following:

a) Net investment

Gross investment	8,104,954	7,561,500
Provision for impaired leased assets	(48,208)	(25,860)
	8,056,746	7,535,640

b) By sector

Government Departments and Authorities	3,759,378	3,143,776
Construction	1,533,797	1,724,253
Manufacturing	142,842	48,293
Transportation	115,301	122,094
Real Estate	288,038	214,273
Trading	220,154	286,958
Other Services	381,571	475,962
Personal	1,508,097	1,434,210
Others	155,776	111,681
Provision for impaired leased assets	(48,208)	(25,860)
	8,056,746	7,535,640

c) Impairment provision for leased assets

Balance, beginning of the year	25,860	17,864
Additional provision for the year	23,559	7,996
Recoveries and write-backs during the year	(1,211)	-
	48,208	25,860

d) The net investment in finance leases comprises:

Less than one year	541,617	507,186
Between one and five years	2,917,496	3,620,683
More than five years	4,597,633	3,407,771
	8,056,746	7,535,640

10. **Loans and advances:**

a) Loans and advances, net

Loans and advances	157,348	161,259
Less: Provisions for impaired loans and advances	(157,348)	(161,259)
	-	-

10. **Loans and advances (continued)**

Loans and advances are all domestic:

b) Impairment provision for loans and advances	**2011**	**2010**
Balance at the beginning of the year	161,259	161,279
Additional provision for the year	-	1
Recoveries and write-backs during the year	(3,911)	(21)
	157,348	**161,259**

11. **Investments securities:**

Investments comprise the following:

-Financial assets at fair value through profit or loss	334,862	83,490
- Financial assets at fair value through other comprehensive income	210,515	218,396
- Financial assets measured at amortised cost	189,159	169,778
	734,536	**471,664**

During the year, the Group provided AED 1.8 million *(2010: nil)* as a specific impairment provisions relating to financial assets at amortised cost

Investments securities - by geographical distribution

- Financial assets at fair value through profit or loss:		
Domestic	249,986	657
International	84,876	82,833
	334,862	**83,490**
- Financial assets at fair value through other comprehensive income		
Domestic	3,198	4,477
International	207,317	213,919
	210,515	**218,396**
- Financial assets measured at amortised cost		
Domestic	88,080	47,118
International	101,079	122,660
	189,159	**169,778**

Investments securities - by quoted / unquoted

- Financial assets at fair value through profit or loss:		
Quoted	279,279	24,127
Unquoted	55,583	59,363
	334,862	**83,490**
- Financial assets at fair value through other comprehensive income		
Quoted	3,198	4,477
Unquoted	207,317	213,919
	210,515	**218,396**
- Financial assets measured at amortised cost		
Quoted	88,080	47,118
Unquoted	101,079	122,660
	189,159	**169,778**

12. **Investment properties**

Balance as at 1st January	179,076	156,636
Addition	-	22,440
Revaluation loss	(1,869)	-
As at 31 December	177,207	**179,076**
- Investment properties by geographical distribution:		
Domestic	169,500	171,369
International	7,707	7,707
	177,207	**179,076**

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 (Domestic):

	2011	2010
Balances as at 1st January	1,016,675	1,008,613
Addition	21,357	92,230
Disposal during the year	(17,229)	(84,168)
As at 31 December	1,020,803	1,016,675

14. Other assets:

	2011	2010
Prepaid expenses	36,123	22,180
Profit receivable	221,934	197,067
Sundry debtors	15,820	29,499
Assets available for sale-Murabaha	7,615	4,938
Other Receivable SNH	13,421	8,763
Other Receivable SIFS	44,024	68,067
Reimbursements under acceptances	62,273	23,274
Others	6,988	6,989
	408,198	360,777

15. Property and equipment:

	Freehold land & buildings	Equipment, furniture & fittings	Computer equipment	Motor vehicles	Capital work in progress	Total
Cost – 2011						
As at 1 January 2011	829,342	97,453	59,933	3,353	35,578	1,025,659
Additions	2,685	3,110	1,961	865	51,900	60,521
Disposals	(6,225)	(10,501)	(6,673)	(860)	-	(24,259)
Capitalised	6,395	746	5,743	-	(12,884)	-
As at 31 December 2011	832,197	90,808	60,964	3,358	74,594	1,061,921
Accumulated depreciation - 2011						
As at 1 January 2011	93,484	82,089	26,382	2,828	-	204,783
Additions	8,450	5,978	10,405	393	-	25, 226
Disposals	(4,319)	(9,480)	(6,492)	(795)	-	(21,086)
As at 31 December 2011	97,615	78,587	30,295	2,426	-	208,923
Net book value						
As at 31 December 2011	**734,582**	**12,221**	**30,669**	**932**	**74,594**	**852,998**
As at 31 December 2010	**735,858**	**15,364**	**33,551**	**525**	**35,578**	**820,876**

16. Customers' deposits:

	2011	2010
Current accounts	3,013,048	2,239,411
Saving accounts	914,149	836,382
Watany/call accounts	221,555	181,254
Time deposits	6,096,644	6,927,799
Margins	153,457	193,288
	10,398,853	10,378,134

17. Due to banks:

On demand	6,006	27,020
Term deposit	894,966	650,069
	900,972	677,089

18. Sukuk payable :

Name of issuer	Maturity date	2011		2010	
		Carrying value	Profit rate	Carrying value	Profit rate
SIB Sukuk Company Limited	12 October 2011	-	3 months LIBOR +0.675%	825,831	3 months LIBOR +0.675%
SIB Sukuk Company II Limited (refer below)	25 May 2016	1,463,062	4.715%	-	-
Total		1,463,062		825,831	

On 26 May 2011, the Bank through a shari'a compliant Sukuk Financing arrangement raised medium term finance amounting to AED 1.47 billion (US$ 400 million). The Sukuk is listed in London Stock Exchange PLC.

The terms of the arrangement includes the transfer of certain leased assets of the Bank on a co-ownership basis to the issuer. The assets are under control of the Bank and shall be continued to be serviced by the Bank.

The Issuer will pay the quarterly distribution amount from the returns received in respect of the leased assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to Sukuk holders on each quarterly distribution date. Upon expiry of this Sukuk the Bank has undertaken to repurchase the assets at the exercise price of US$ 400 million.

Furthermore, the Bank redeemed the Sukuk matured on 12 October 2011 by repurchase of leased assets at an exercise price of US$ 225 million (AED 826.4 million).

	2011	2010
19. Other Liabilities:		
Depositors' profit payable	30,257	33,715
Payables subsidiaries	55,073	47,925
Accrual and provision	6,910	14,419
Accounts payable	51,457	28,963
Provision for staff benefits	26,055	23,196
Profit Reserve	14,422	9,428
Managers' cheques	39,378	16,684
Obligations under acceptances	62,273	23,275
Sundry creditors	120,886	94,289
Others	7,031	8,684
	413,742	300,578

20. Share Capital:

The Bank's issued and fully paid share capital comprises 2,425,500,000 shares of AED 1.0 each.

	2011		2010	
	No. of shares	Value	No. of shares	Value
Balance at the beginning of the year	2,425,500,000	2,425,500	2,310,000,000	2,310,000
Bonus Share	-	-	115,500,000	115,500
	2,425,500,000	2,425,500	2,425,500,000	2,425,500

21. Proposed cash dividend and Bonus Share :

The Directors propose to the Shareholders a cash dividend of 6% of the par value of share (AED 0.06 per share) amounting to AED 145.5 million. *(compared to cash dividend of AED 133.4 million (AED 0.055per share) for 2010.*

22. Proposed directors' remuneration:

In accordance with the Ministry of Economy & Planning interpretation of Article 118 of Commercial Companies Law No. 8 of 1984, the proposed directors' remuneration of AED 2.4 million *(2010: AED 2.5 million)* has been treated as a as an appropriation from equity and is included in retained earnings.

23. Reserves :

In accordance with the Bank's Articles of Association and Article (82) of Union Law No. 10 of 1980, the Bank transfers 10% of annual net profits, if any, to the legal reserve until it equals 50% of the share capital. Also, in accordance with its Articles of Association, 10% of annual net profits, if any, maybe transferred to a statutory reserve until it is suspended by an ordinary general meeting upon a proposal by the Board of directors. The Statutory reserve can be utilized for the purposes determined by the ordinary general meeting upon recommendations of the Board of Director. The movements in reserves are as follows:

	Legal reserve	Statutory reserve	Fair value reserve
Balance at 1 January 2011	1,327,617	89,008	(15,426)
Fair value adjustment – IFRS - 9	-	-	2,102
Change in fair-value of financial assets	-	-	(7,157)
Balance at 31 December 2011	**1,327,617**	**89,008**	**(20,481)**

The fair value reserve comprises the cumulative net change in fair values of financial assets through other comprehensive. Furthermore, in accordance with the Federal Law No. 8 of 1984, the Bank used their legal reserve which is in excess of 50% of their paid up capital for the issuance of bonus shares.

	2011	2010
24. Fees, commission and other income:		
Fees and commissions	78,147	65,291
Net gains from dealing in foreign currencies	20,999	21,199
Income from investments securities	16,125	25,249
Income from properties held for sale	1,705	12,112
Income from subsidiary companies	21,511	30,790
Other operating income	9,371	9,883
	147,858	**164,524**
25. General and administrative expenses:		
Staff costs	216,345	205,708
Depreciation	25,226	26,512
Other general and administrative expenses	74,237	68,421
	315,808	**300,641**
26. Provision - net of recoveries :		
a) provision for customer receivables – net of recoveries		
Provision made during the year	(59,960)	(40,753)
Recoveries during the year	23,615	6,333
	(36,345)	(34,420)
b) Other provision – net of recoveries		
Impairment provision – investment securities	(1,763)	(6,877)
Revaluation loss on investment properties	(1,869)	-
Impairment Provision - customer receivables – SIFS	(6,735)	(5,836)
	(10,367)	(12,713)
c) Other recoveries		
Other recoveries during the year	839	15,691
	839	15,691
Total provision - net of recoveries	**(45,873)**	**(31,442)**

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:

	2011	2010
Appropriation to depositors	212,016	274,120
Transfer from profit equalisation reserve	4,994	7,572
	217,010	**281,692**

28. Basic and diluted earnings per share:

The calculation of earnings per share is based on earnings of AED 271.1 million *(2010: AED 266.4 million)* for the year divided by the number of shares outstanding during the year. Comparative EPS has been adjusted for the bonus issuance. There is no diluted effect on basic earnings per share.

There is no diluted effect on basic earnings per share.

29. Cash and cash equivalents:

Cash and cash equivalents comprise of	2011	2010
Cash and balances with banks and financial institutions	1,770,432	1,921,694
Wakala arrangements with financial institutions	1,988,586	1,955,483
	3,759,018	3,877,177
Less cash reserves with CBUAE	(659,479)	(580,053)
Cash and cash equivalents	**3,099,539**	**3,297,124**

Cash reserves with CBUAE are non-profit bearing and not available to fund day-to-day operations of the Bank.

30. Key accounting estimates, and judgments in applying accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year and the resultant provisions and fair value. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In particular, considerable judgment is required by management in respect of the following:

Impairment losses on financing receivables and leased assets (Ijarah)

The Bank reviews its portfolios of financing receivables and leased assets to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio within financing receivables and leased assets before the decrease can be identified with an individual receivable in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss. Experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Valuation of financial instruments

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

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in the market that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuations. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

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

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark profit rates, credit spreads and other premia use in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like profit rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	Note	Level 1	Level 2	Level 3	Total
31 December 2011					
Financial assets					
Investment securities	11	282,477	-	262,900	545,377
		282,477	-	262,900	545,377
31 December 2010					
Financial assets					
Investment securities	11	28,604	-	273,282	301,886
		28,604	-	273,282	301,886

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the hierarchy for investment securities:

	2011	2010
Balance as at 1 January	273,282	284,796
Total gains or losses:		
in consolidated statement of income	604	(2,928)
in consolidated statement of comprehensive income through OCI	(5,590)	(2,880)
Disposals	(5,396)	(5,706)
Balance at 31 December	**262,900**	**273,282**

31. Financial assets - accounting classification and fair values

The following table summarises the transitional classification and measurement adjustments to the Group's financial assets on 31 December 2010.

Particulars	Original classification under IAS 39	New classification under IFRS 9	At 31 December 2010 Original carrying amount under IAS 39	At 31 December 2010 New carrying amount under IFRS 9	At 1 January 2011 Original carrying amount under IAS 39	At 1 January 2011 New carrying amount under IFRS 9
Investments securities						
Available-for-sale financial assets	Available-for-sale	Fair value through profit or loss	82,833	82,833	82,833	82,833
Available-for-sale financial assets	Available-for-sale	Fair value through other comprehensive income	218,396	218,396	218,396	218,396
Held-to-maturity financial assets	Held-to-maturity	Amortised cost	169,778	169,778	169,778	169,778
Financial assets through profit or loss	Financial assets through profit or loss	Fair value through profit or loss	657	657	657	657
Total			**471,664**	**471,664**	**471,664**	**471,664**

32. Segment reporting

The Bank's activities comprise the following main business segments:

a. Government and corporate

Within this business segment the Bank provides companies, institutions and government departments with a range of Islamic financial products and services.

b. Retail

The retail segment provides a wide range of Islamic financial services to individuals.

c. Investment and treasury

This segment mainly includes income on investments of the Bank and other money market activities.

d. Subsidiaries

SNH through its divisions is engaged in operating hotels and resorts, catering and related services and Sharjah Islamic Financial service which is offering brokerage services for trading in Islamic Shari'a compliant shares.

32. Segment reporting (continued)

	Corporate and government	Retail	Investment and treasury	Subsidiaries	Total
Consolidated statement of income:					
For the year ended 31st December 2011:					
Income from murabaha and leasing	402,821	269,268	58,977	-	731,066
Sukuk payable	-	-	(49,112)	-	(49,112)
Fees, Commission and other income	39,561	31,984	32,071	23,380	126,996
Unallocated income	-	-	-	-	20,862
Total income	**442,382**	**301,252**	**41,936**	**23,380**	**829,812**
General and administrative expenses	-	-	-	(22,871)	(22,871)
General and administrative expenses – unallocated	-	-	-	-	(292,937)
Net operating income	**442,382**	**301,252**	**41,936**	**509**	**514,004**
Provisions- net of recoveries	(12,030)	(15,495)	(7,981)	(10,367)	(45,873)
Net profit before distribution to depositors	**430,352**	**285,757**	**33,955**	**(9,858)**	**468,131**
Distribution to depositors	(142,932)	(67,395)	(1,690)	-	(212,017)
Transfer to profit equalization reserve - unallocated	-	-	-	-	(4,993)
Net profit for the year	**287,420**	**218,362**	**32,265**	**(9,858)**	**251,121**

Consolidated statement of financial position: As at 31st December 2011:	Corporate and government	Retail	Investment and treasury	Subsidiaries	Total
Assets					
Segment assets	6,139,305	4,154,040	6,238,477	672,112	17,203,934
Unallocated assets	-	-	-	-	529,208
Total assets	**6,139,305**	**4,154,040**	6,238,477	672,112	**17,733,142**
Liabilities					
Segment liabilities	5,824,985	4,636,141	2,364,034	55,073	12,880,233
Unallocated liabilities	-	-	-	-	446,751
Total liabilities	**5,824,985**	**4,636,141**	**2,364,034**	**55,073**	**13,326,984**

32. Segment reporting (continued)

	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**

	Corporate and government	Retail	Investment and treasury	Subsidiaries	Total
Consolidated statement of financial position:					
As at 31st December 2010:					
Assets					
Segment assets	5,358,240	4,144,693	6,000,424	667,485	16,170,842
Unallocated assets	-	-	-	-	496,319
Total assets	**5,358,240**	4,144,693	6,000,424	667,485	**16,667,161**
Liabilities					
Segment liabilities	6,351,989	4,049,260	1,502,920	47,925	11,952,094
Unallocated liabilities	-	-	-	-	367,202
Total liabilities	**6,351,989**	4,049,260	1,502,920	47,925	**12,319,296**

32. Segment reporting (continued)
Geographical Distribution for Assets and Liabilities

Assets 2011:	Total	GCC	Other Arab Countries	North Amrica	Europe	Asia	Other
Cash and balances with banks and financial institutions	1,770,432	1,750,353	365	1,721	6,186	225	11,582
Wakalah arrangements with financial institutions	2,341,534	2,286,122	-	-	55,412	-	-
Financing receivables	2,370,688	2,361,809	-	-	8,879	-	-
Financing ijarah	8,056,746	8,056,746	-	-	-	-	-
Investments securities	734,536	658,851	-	15,428	18,297	34,894	7,066
Investment properties	177,207	169,500	7,707	-	-	-	-
Properties held for sale	1,020,803	1,020,803	-	-	-	-	-
Other assets	408,198	408,198	-	-	-	-	-
Property and equipment	852,998	852,998	-	-	-	-	-
Total assets	17,733,142	17,565,380	8,072	17,149	88,774	35,119	18,648
Liabilities 2011:							
Customers' deposits	10,398,853	10,387,086	-	-	11,702	65	-
Due to banks	900,972	900,866	-	-	-	106	-
Sukuk payable	1,463,062	-	-	-	1,463,062	-	-
Other liabilities and zakat payable	564,097	564,097	-	-	-	-	-
Shareholders Equity	4,406,158	4,406,158	-	-	-	-	-
Total liabilities and shareholder's equity	17,733,142	16,258,207	-	-	1,474,764	171	-

32. Segment reporting (continued)

Geographical Distribution for Assets and Liabilities (continued)

Assets 2010:	Total	GCC	Other Arab Countries	North Amrica	Europe	Asia	Other
Cash and balances with banks and financial institutions	1,921,694	1,917,053	341	711	2,731	217	641
Wakalah arrangements with financial institutions	2,242,617	2,242,617	-	-	-	-	-
Financing receivables	2,118,142	2,115,732	-	-	2,410	-	-
Financing ijarah	7,535,640	7,535,640	-	-	-	-	-
Investments securities	471,664	401,106	-	16,807	11,305	34,894	7,552
Investment properties	179,076	171,369	7,707	-	-	-	-
Properties held for sale	1,016,675	1,016,675	-	-	-	-	-
Other assets	360,777	360,777	-	-	-	-	-
Property and equipment	820,876	820,876	-	-	-	-	-
Total assets	16,667,161	16,581,845	8,048	17,518	16,446	35,111	8,193

Liabilities 2010:	Total	GCC	Other Arab Countries	North Amrica	Europe	Asia	Other
Customers' deposits	10,378,134	10,362,254	2,295	-	11,529	-	2,056
Due to banks	677,089	653,811	-	23,089	-	189	-
Sukuk payable	825,831	-	-	-	825,831	-	-
Other liabilities	438,242	438,242	-	-	-	-	-
Shareholders Equity	4,347,865	4,347,865	-	-	-	-	-
Total liabilities and shareholder's equity	16,667,161	15,802,172	2,295	23,089	837,360	189	2,056

33. Contingencies and commitments :

The Bank provides financial guarantees and letter of credit to meet the requirements of the Bank's customers. These agreements have fixed limits and expirations and are not concentrated in any period.

The amounts reflected for guarantees represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

These contingent liabilities have off balance-sheet credit risk as only the related fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Many of the contingent liabilities will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

	2011	2010
a)Letter of credit - by sector:		
Government departments and authorities	1,428	3,012
Corporate	151,678	133,090
Retail and others	-	545
	153,106	136,647
b)Letter of guarantee – by sector:		
Government of sharjah	4,500	4,573
Government departments and authorities	95,750	35,244
Corporate	515,865	514,202
Retail and others	44,332	53,145
	660,447	607,164

Others

The Bank has issued a financial commitments to Planning and survey department amounting to AED 181.5 million Dirhams against sale of properties held for sale, under development till the completion of this projects.*(2010 : AED 181.5 million).*

In addition a financial commitments of AED 80.0 million issued to Abu Dhabi securities market against conducting brokerage operations for Sharjah Islamic financial services-one of the Group's subsidiary*(2010 : AED 530.0 million).*

34. Related parties:

The Bank has transactions in the ordinary course of business with directors, staff of the Bank and entities of which they are principal owners.

The significant balances outstanding at 31st December in respect of related parties included in the consolidated financial statements are as follows:

	2011	2010
Government of Sharjah receivables	1,013,637	865,113
Government departments and authorities receivables	2,750,234	2,288,786
Other financing receivables and investing activities	963,357	611,069
Government of Sharjah deposits	38,518	137,191
Government department & authority deposits	1,596,193	2,213,253
Other deposits	293,997	223,660
Contingent liabilities	115,897	42,845
Income from financing and investing activities	223,702	258,082
Depositors' share of profit	33,585	36,301

Key management compensation includes salaries and other short term benefits of AED 13.2 million in 2011*(2010: AED 13.8 million)* and post employment benefits of AED 0.8 million in 2011 *(2010: AED 0.7 million).*

35. Fiduciary activities:

The Bank has launched a shari'a compliant investment fund 'Tharwa Islamic Equity Portfolio' ("the fund") during 2005. The Bank in its capacity as a portfolio agent of the fund is responsible for certain fiduciary activities on behalf of customers investing in the fund. At the reporting date, the net assets value per unit of the fund was AED 7.8 million *(2010: AED 9.8 million)*

36. Fair value of financial instruments:

The fair value of the Bank's financial instruments approximates the amount for which such instruments could be exchanged between knowledgeable willing parties in an arm's length transaction.

The following summarizes the major methods and assumptions used in estimating the fair value of financial instruments:

Fair value of FVTPL and FVTOCI are based on quoted market price at the reporting date without any deduction for transaction cost that might be incurred on sale or disposal. If quoted market price is not available, fair value is estimated using pricing models or discounted cash flow techniques.

Fair value of investment property is based on the current prices in an active market for similar properties in the same location and condition. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the reporting date. Where other pricing models are used, inputs are based on market related data at the reporting date.

37. Comparatives figures:

Certain prior year comparatives have been reclassified in order to conform to current year's presentation. The comparatives set out in these consolidated financial statements represent the activities of the Group.