

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
(UN – AUDITED)
30 JUNE 2011

Directors' Report

The Directors have pleasure in presenting their report together with the condensed consolidated interim financial statements of SHARJAH ISLAMIC BANK ("the Bank") for the six-month period ended 30th June 2011.

Financial Highlights

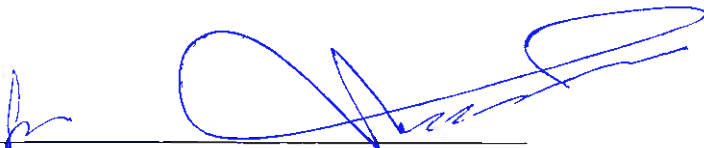
The Group has reported a net profit of AED 123.3 million for the six-month period ended 30th June 2011 compared to AED 118.5 million for the corresponding prior year period, an increase of 4.1%.

Compared to December 2010, total assets increased by AED 1.7 billion to reach AED 18.3 billion, an increase of 9.9%, financing receivables and leased assets increased by 5.1 % (AED 493.9 million) to reach AED 10.1 billion, and customer deposits experienced a growth of 6.4 % (AED 663.7 million) to reach AED 11.0 billion.

In may 2011 SIB successfully issued AED 1.5 billion sukuk (\$400 million) through shari'a compliant for five years.

Directors:-

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



Sultan Bin Mohammed Bin Sultan Al Qassimi
Chairman
18 July 2011





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Independent auditors' report on review of condensed consolidated interim financial information

The Shareholders SHARJAH ISLAMIC BANK

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Sharjah Islamic Bank ("the Bank") and its subsidiaries (collectively referred as "the Group") as at 30 June 2011 and the related condensed consolidated interim statements of comprehensive income (comprising a condensed consolidated interim statement of comprehensive income and a separate condensed consolidated interim statement of income), condensed consolidated interim statement of cash flows and condensed consolidated interim statement of changes in equity for the six-month period then ended ("the condensed consolidated interim financial information). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Financial Reporting Standards IAS 34, "*Interim financial reporting*". Our responsibility is to express a conclusion on this interim financial information based on our review

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 June 2011 is not prepared, in all material respects, in accordance with IAS 34, "*Interim Financial Reporting*".

Sharad Bhandari
Registration No.: 267

KPMG
18 JUL 2011

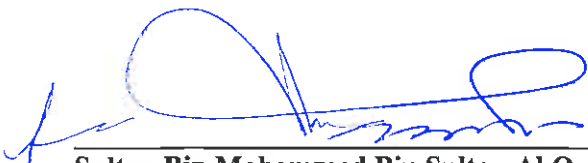
SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES


CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

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

| | 30 June 2011 <u>Un-audited</u> | 31 December 2010 <u>Audited</u> |
|--|--------------------------------------|---------------------------------------|
| Assets | | |
| Cash and balances with banks and financial institutions | 2,229,075 | 1,921,694 |
| International murabaha and wakalah with financial institutions | 3,053,176 | 2,242,617 |
| Financing receivables | 2,236,562 | 2,118,142 |
| Leased assets | 7,911,094 | 7,535,640 |
| Investments securities | 454,389 | 471,664 |
| Investment properties | 179,076 | 179,076 |
| Properties held-for-sale | 1,025,039 | 1,016,675 |
| Other assets | 405,605 | 360,777 |
| Property and equipment | 823,573 | 820,876 |
| Total assets | 18,317,589 | 16,667,161 |
| Liabilities | | |
| Customers' deposits | 11,040,513 | 10,378,134 |
| Due to banks | 130,469 | 677,089 |
| Sukuks payable | 2,289,420 | 825,831 |
| Other liabilities | 400,989 | 300,578 |
| Accrued zakat | 124,448 | 137,664 |
| Total liabilities | 13,985,839 | 12,319,296 |
| Shareholders' equity | | |
| Share capital | 2,425,500 | 2,425,500 |
| Legal reserve | 1,327,617 | 1,327,617 |
| Statutory reserve | 89,008 | 89,008 |
| Revaluation reserve | (18,938) | (15,426) |
| Retained earnings | 508,563 | 521,166 |
| Total shareholders' equity | 4,331,750 | 4,347,865 |
| Total liabilities and shareholders' equity | 18,317,589 | 16,667,161 |
| Contingent Liabilities | | |
| Letters of credit | 139,560 | 136,647 |
| Letters of guarantee | 569,012 | 607,164 |
| | 708,572 | 743,811 |

These condensed consolidated interim financial statements were authorised for issue in accordance with a resolution of the Directors on 18 July 2011.


Sultan Bin Mohammed Bin Sultan Al Qassimi
Chairman


Mohammed Ahmed Abdullah
Chief Executive Officer

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



SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2011 (Un-audited)
(Currency: Thousands of U.A.E. Dirhams)

| | For the three-month period ended 30 June | | For the six-month period ended 30 June | |
|---|---|----------------|---|----------------|
| | 2011 | 2010 | 2011 | 2010 |
| Income from murabaha and leasing | 168,162 | 185,249 | 350,536 | 362,152 |
| Profit paid on Sukuk | (9,205) | (2,160) | (11,373) | (4,234) |
| Fees, commission and other income | 31,099 | 28,876 | 63,518 | 51,730 |
| Income from subsidiary companies | 4,561 | 7,220 | 12,694 | 17,264 |
| Total income | 194,617 | 219,185 | 415,375 | 426,912 |
| General and administrative expenses | (71,932) | (72,043) | (148,122) | (138,554) |
| Net operating income | 122,685 | 147,142 | 267,253 | 288,358 |
| Provisions - net of recoveries | (12,885) | (23,718) | (22,687) | (25,595) |
| Net profit before distribution to depositors | 109,800 | 123,424 | 244,566 | 262,763 |
| Distribution to depositors | (56,501) | (72,441) | (121,297) | (144,311) |
| Net profit for the period | 53,299 | 50,983 | 123,269 | 118,452 |
| Earning per share (U.A.E. Dirhams) | 0.02 | 0.02 | 0.05 | 0.05 |

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

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2011 (Un- audited)
(Currency: Thousands of U.A.E. Dirhams)

| | For the three-month period ended 30 June | | For the six-month period ended 30 June | |
|--|---|---------------|---|----------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net profit for the period | 53,299 | 50,983 | 123,269 | 118,452 |
| Other comprehensive income | | | | |
| Net change in fair value reserve | (3,564) | (14,930) | (3,512) | (12,525) |
| Total comprehensive income for the period | 49,735 | 36,053 | 119,757 | 105,927 |

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



SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2011 (Un- audited)

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

| | For the six-month period ended 30 June | |
|---|---|------------------|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net profit for the period | 123,269 | 118,452 |
| Adjustments: | | |
| Depreciation | 12,468 | 13,213 |
| Amortisation of sukuk issuance cost | 522 | 373 |
| Provision on customer receivables | 18,940 | (2,064) |
| Unrealised loss on financial assets at fair value through profit or loss | 1,472 | 2,323 |
| Operating profit before changes in operating assets and liabilities | 156,671 | 132,297 |
| Changes in operating assets and liabilities: | | |
| Change in reserve with Central Bank | (22,080) | 19,551 |
| Change in international murabaha and wakalah with financial institutions | 34,995 | (36,809) |
| Change in financing receivables | (122,130) | 277,165 |
| Change in leased assets | (390,684) | (119,219) |
| Change in other assets, net | (44,828) | (27,518) |
| Change in customers' deposits | 662,379 | 110,186 |
| Change in due to banks | (546,620) | 336,519 |
| Change in zakat | (13,216) | (27,572) |
| Change in other liabilities | 100,411 | (246) |
| Net cash flows (used in) / from operating activities | (185,102) | 664,354 |
| Cash flows from investing activities: | | |
| Properties and equipment – net | (15,166) | (108,572) |
| Acquisition in Properties held-for-sale | (8,364) | (8,062) |
| Investments securities | 12,292 | 3,405 |
| Net cash used in investing activities | (11,238) | (113,229) |
| Cash flows from financing activities: | | |
| Proceeds from Sukuk | 1,463,067 | - |
| Board of Directors' fees paid | (2,470) | (2,700) |
| Cash dividends | (133,402) | (115,500) |
| Net cash from / (used in) financing activities | 1,327,195 | (118,200) |
| Net increase in cash and cash equivalents | 1,130,855 | 432,925 |
| Cash and cash equivalents, beginning of the period | 3,297,124 | 2,607,973 |
| Cash and cash equivalents, end of period | 4,427,979 | 3,040,898 |
| Cash and cash equivalents comprise of:- | | |
| Cash and balances with banks and financial institutions (excluding cash reserve with central bank) | 1,626,942 | 661,295 |
| International murabaha and wakalah with financial institutions: less than 3 months maturity | 2,801,037 | 2,379,603 |
| | 4,427,979 | 3,040,898 |

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

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2011 (Un- audited)

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

| | ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK | | | | |
|---|--|----------------------------|--------------------|-------------------|------------------|
| | Share capital | Legal & statutory reserves | Fair value reserve | Retained earnings | Total equity |
| Balance as at 1 January 2010 | 2,310,000 | 1,532,125 | 883 | 421,303 | 4,264,311 |
| Total comprehensive income for the period | | | | | |
| Net profit for the period | - | - | - | 118,452 | 118,452 |
| Other comprehensive income | | | | | |
| Net change in fair value of available – for – sale investment | - | - | (12,525) | - | (12,525) |
| Total comprehensive income for the period | - | - | (12,525) | 118,452 | 105,927 |
| Transactions with owners recorded directly in equity | | | | | |
| Cash dividends paid | - | - | - | (115,500) | (115,500) |
| Issue of bonus shares | 115,500 | (115,500) | - | - | - |
| Board of directors' fees - paid | - | - | - | (2,700) | (2,700) |
| Total Transactions with owners | 115,500 | (115,500) | - | (118,200) | (118,200) |
| As at 30 June 2010 | 2,425,500 | 1,416,625 | (11,642) | 421,555 | 4,252,038 |
| Balance as at 1 January 2011 | 2,425,500 | 1,416,625 | (15,426) | 521,166 | 4,347,865 |
| Total comprehensive income for the period | | | | | |
| Net profit for the period | - | - | - | 123,269 | 123,269 |
| Other comprehensive income | | | | | |
| Net change in fair value of financial assets - FVTOCI | - | - | (3,512) | - | (3,512) |
| Total comprehensive income for the period | - | - | (3,512) | 123,269 | 119,757 |
| Transactions with owners recorded directly in equity | | | | | |
| Cash dividends paid | - | - | - | (133,402) | (133,402) |
| Issue of bonus shares | - | - | - | - | - |
| Board of directors' fees - paid | - | - | - | (2,470) | (2,470) |
| Total Transactions with owners | - | - | - | (135,872) | (135,872) |
| As at 30 June 2011 | 2,425,500 | 1,416,625 | (18,938) | 508,563 | 4,331,750 |

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

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

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2011 (Un- audited)
(Currency: Thousands of U.A.E. Dirhams)

1. Legal status and activities

SHARJAH ISLAMIC BANK ("the Bank") was incorporated in 1975 as a public joint stock company by Emiri Decree issued by His Highness the Ruler of Sharjah, United Arab Emirates. The Bank is engaged in banking activities, financing and investing activities in accordance with its articles of incorporation, Islamic Shari'a principles and regulation of UAE Central Bank, which are carried out through its branches established in United Arab Emirates.

The condensed consolidated interim financial statements of the Bank comprise the Bank and its subsidiaries incorporated in United Arab Emirates, Sharjah National Hotels (SNH), Sharjah Islamic Financial Services LLC (SIFS), Contact Marketing and ASAS (all together referred to as "the Group", also refer note 3). SNH through its divisions is engaged in operating hotels and resorts, catering and related services, whereas SIFS is involved in conducting intermediation in dealing in local market Shari'a compliant shares. Contact Marketing provides certain support services to the Bank.

The registered office of the Bank is Post Box No.4, Sharjah, United Arab Emirates.

2. Basis of preparation

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial reporting Standards ("IFRS") IAS 34, Interim financial reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31st December 2010.

b) Key accounting estimates & judgment

The preparation of condensed consolidated interim financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. In particular these estimates and judgments relate to impairment losses on financing receivables and leased assets, provisions for doubtful debts, valuation of investment properties, investments and obsolete inventory.

c) Change in accounting policies

Overview

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

- a. Early adoption of IFRS 9 – 'Financial Instruments'
- b. Disclosure pertaining to Related parties – IAS 24 (revised)
- a. Early adoption of IFRS 9 – 'Financial Instruments'

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

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

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2011 (Un-audited)
(Currency: Thousands of U.A.E. Dirhams)

2. Basis of preparation (continued)

a. Early adoption of IFRS 9 – ‘Financial Instruments’ (continued)

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 loans 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.

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

b. 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.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2011 (Un- audited)

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

2. Basis of preparation (continued)

c) Change in accounting policies (continued)

b. Disclosures pertaining to related parties - IAS 24 (Revised) (continued)

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

3. Summary of significant accounting policies

Except as described in noted 2(c), the accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2010. Policies for financial and liabilities are stated below.

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

i) 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 condensed consolidated statement of income.

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

ii) 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 condensed consolidated statement of income.

iii) 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 interest on the principal amount outstanding.

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

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2011 (Un- audited)
(Currency: Thousands of U.A.E. Dirhams)

3. Summary of significant accounting policies (continued)

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

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

a. Classification of financial assets

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.

b. Recognition of financial instruments

Investments 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.

c. 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.

d. Fair value measurement principles

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

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

e. Measurement of financial instruments

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

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

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2011 (Un-audited)
(Currency: Thousands of U.A.E. Dirhams)

3. Summary of significant accounting policies (continued)

iv) Financial assets and liabilities as per IAS 39 (for comparative purpose only) (continued)

f. 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.

4. Sukuks payable

| Name of issuer | Maturity date | 30 June 2011 (Un-audited) | | 31 December 2010 (Audited) | |
|--|-----------------|------------------------------|------------------------|-------------------------------|------------------------|
| | | Carrying value | Profit rate | Carrying value | Profit rate |
| SIB Sukuk Company Limited | 12 October 2011 | 825,831 | 3 months LIBOR +0.675% | 825,831 | 3 months LIBOR +0.675% |
| SIB Sukuk Company II Limited (refer below) | 25 May 2016 | 1,463,409 | 4.715% | - | - |
| Total | | 2,289,420 | | 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.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2011 (Un-audited)

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

5. Segment reporting

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

a) Government and corporate

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

b) Retail

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

c) Investment and treasury

This segment mainly includes wakalah deals with other financial institutions, investments of the Bank and other money market activities.

d) Subsidiaries

SNH through its divisions is engaged in operating hotels and resorts, catering and related services and SIFS is offering Brokerage services for trading in Islamic Sharia'a Compliant shares. ASAS is yet to commence its operations.

| | Corporate and Government | Retail | Investment and treasury | Subsidiaries | Total |
|---|--------------------------------|----------------|-------------------------------|----------------|----------------|
| Consolidated statement of income | | | | | |
| For the six-month period ended 30 June 2011 | | | | | |
| Income from Murabaha and leasing | 193,056 | 129,655 | 27,825 | - | 350,536 |
| Profit paid on Sukuk | - | - | (11,373) | - | (11,373) |
| Fees, commission and other income | 20,045 | 15,933 | 15,520 | - | 51,498 |
| Income from subsidiaries | - | - | - | 12,694 | 12,694 |
| Unallocated income | - | - | - | - | 12,020 |
| Total income | 213,101 | 145,588 | 31,972 | 12,694 | 415,375 |
| General and administrative expenses | - | - | - | (10,888) | (10,888) |
| General and administrative expenses - unallocated | - | - | - | - | (137,234) |
| Net operating income | 213,101 | 145,588 | 31,972 | 1,806 | 267,253 |
| Provisions - net of recoveries | (3,144) | (7,345) | (9,105) | (3,093) | (22,687) |
| Net profit before distribution to depositors | 209,957 | 138,243 | 22,867 | (1,287) | 244,566 |
| Distribution to depositors | (83,600) | (39,250) | (762) | - | (123,612) |
| Transfer from profit equalisation reserve - unallocated | - | - | - | - | 2,315 |
| Net profit for the period | 126,357 | 98,993 | 22,105 | (1,287) | 123,269 |

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2011 (Un- audited)

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

5. Segment reporting (continued)

Consolidated statement of financial position As at 30 June 2011

| | Corporate and Government | Retail | Investment and treasury | Subsidiaries | Total |
|---------------------|--------------------------------|------------------|-------------------------------|----------------|-------------------|
| Assets | | | | | |
| Segment assets | 5,845,821 | 4,145,320 | 7,150,909 | 653,084 | 17,795,134 |
| Unallocated assets | - | - | - | - | 522,455 |
| Total assets | 5,845,821 | 4,145,320 | 7,150,909 | 653,084 | 18,317,589 |

Liabilities

| | | | | | |
|--------------------------|------------------|------------------|------------------|---------------|-------------------|
| Segment liabilities | 6,586,635 | 4,508,402 | 2,419,889 | 60,963 | 13,575,889 |
| Unallocated liabilities | - | - | - | - | 409,950 |
| Total liabilities | 6,586,635 | 4,508,402 | 2,419,889 | 60,963 | 13,985,839 |

Consolidated statement of income For the six-month period ended 30 June 2010

| | | | | | |
|--|----------------|----------------|---------------|----------------|----------------|
| Income from Murabaha and leasing | 175,866 | 156,658 | 29,628 | - | 362,152 |
| Profit paid on Sukuk | - | - | (4,234) | - | (4,234) |
| Fees, commission and other income | 18,173 | 14,890 | 13,083 | - | 46,146 |
| Income from subsidiaries | - | - | - | 17,264 | 17,264 |
| Unallocated income | - | - | - | - | 5,584 |
| Total income | 194,039 | 171,548 | 38,477 | 17,264 | 426,912 |
| General and administrative expenses | - | - | - | (14,245) | (14,245) |
| General and administrative expenses – unallocated | - | - | - | - | (124,309) |
| Net operating income | 194,039 | 171,548 | 38,477 | 3,019 | 288,358 |
| Provisions - net of recoveries | 2,135 | (15,263) | (2,241) | (10,226) | (25,595) |
| Net profit before distribution to depositors | 196,174 | 156,285 | 36,236 | (7,207) | 262,763 |
| Distribution to depositors | (95,978) | (40,554) | (4,012) | - | (140,544) |
| Transfer from profit equalisation reserve – unallocated | - | - | - | - | (3,767) |
| Net profit for the period | 100,196 | 115,731 | 32,224 | (7,207) | 118,452 |

Consolidated statement of financial position – audited As at 31 December 2010

| | | | | | |
|--------------------------|------------------|------------------|------------------|----------------|-------------------|
| Assets | | | | | |
| Segment assets | 5,358,240 | 4,144,693 | 6,000,424 | 667,485 | 16,170,842 |
| Unallocated assets | - | - | - | - | 496,319 |
| Total assets | 5,358,240 | 4,144,693 | 6,000,424 | 667,485 | 16,667,161 |
| Liabilities | | | | | |
| Segment liabilities | 6,351,989 | 4,049,260 | 1,502,920 | 47,925 | 11,952,094 |
| Unallocated liabilities | - | - | - | - | 367,202 |
| Total liabilities | 6,351,989 | 4,049,260 | 1,502,920 | 47,925 | 12,319,296 |

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2011 (Un-audited)
(Currency: Thousands of U.A.E. Dirhams)

6. Related parties

The Bank has transactions in the ordinary course of business with directors, staff of the Bank and entities of which they are principal owners. At the reporting date, such significant balances include:

| Condensed consolidated interim statement of financial position | 31 June 2011 | 31 December 2010 |
|--|---------------|------------------|
| | (Un-audited) | (Audited) |
| Government of Sharjah receivables | 945,620 | 865,113 |
| Government departments and authorities receivables | 2,611,077 | 2,288,786 |
| Other financing receivables and investing activities | 973,012 | 611,069 |
| Government of Sharjah deposits | 75,235 | 137,191 |
| Government department & authority deposits | 2,350,557 | 2,213,253 |
| Other deposits | 286,876 | 223,660 |
| Contingent liabilities | 85,082 | 42,845 |

| Statement of income | 30 June 2011 | 30 June 2010 |
|--|--------------|--------------|
| | (Un-audited) | (Un-audited) |
| Income from financing and investing activities | 137,785 | 115,330 |
| Depositors' share of profit | 21,173 | 17,761 |

Key management compensation includes salaries and other short term benefits of AED 6.6 million for the period ended 30 June 2011 (30 June 2010: AED 6.8 million) and post employment benefits of AED 0.5 million for the period ended 30 June 2011 (30 June 2010: AED 0.4 million).

7. Properties held-for-sale

These are properties which have been acquired for the purpose of sale after re-development and are stated at the lower of cost or net realisable value.

8. 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.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2011 (Un- audited)
(Currency: Thousands of U.A.E. Dirhams)

8. Financial assets– accounting classification and fair values (continued)

| Particulars | Original classification under IAS 39 | New classification under IFRS 9 | At 31 December 2010 | | At 1 January 2011 | |
|---|---|---|---------------------------------------|----------------------------------|---------------------------------------|----------------------------------|
| | | | Original carrying amount under IAS 39 | New carrying amount under IFRS 9 | Original carrying amount under IAS 39 | New carrying amount under IFRS 9 |
| <i>Investments securities</i> | | | | | | |
| Available-for-sale financial assets | Available-for-sale | Fair value through profit or loss | 210,208 | 210,208 | 210,208 | 210,208 |
| Available-for-sale financial assets | Available-for-sale | Fair value through other comprehensive income | 91,020 | 91,020 | 91,020 | 91,020 |
| Held-to-maturity financial assets | Held-to-maturity | Amortised cost | 169,779 | 169,779 | 169,779 | 169,779 |
| 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 |

9. Cash dividend and bonus share

In the Annual General Meeting of the bank held on 14th March 2011 the Shareholders amended the proposed dividend from 7% cash to 5.5% cash (AED 0.055 per share) amounting to AED 133.4 million for the year 2010, accordingly the accrued Zakat will increase by AED 943 thousand to reach AED 48.3 million.

10. Interim measurement

The nature of the Group's business is such that income and expense are incurred in a manner, which is not impacted by any form of seasonality. These condensed consolidated interim financial statements were prepared based upon an accrual concept, which requires income and expense to be recorded as earned or incurred and not as received or paid throughout the year.

11. Comparatives

Certain prior year/period comparatives have been reclassified in order to conform to current period's presentation.