

NATIONAL BONDS CORPORATION

(a private joint stock company)

ISSUE OF NATIONAL BONDS

Prospectus

This prospectus is dated 18 March 2006

Amended on 20 January 2008 (Amendment #2)

National Bonds Mudaraba Directory

The Mudareb: **National Bonds Corporation**

Emaar Business Park
Building 1, 7th Floor
Sheikh Zayed Road
Dubai
United Arab Emirates

The Registrar: **National Bonds Corporation**

Emaar Business Park
Building 1, 7th Floor
Sheikh Zayed Road
Dubai
United Arab Emirates

The Auditor: **Ernst & Young**

P.O. Box 9267
Dubai
United Arab Emirates

Fatwa & Shari'a Supervisory Board: **Dr Hussain Hamid Hassan**

Dr. Ajeel Jasim al Nashmi

Dr. Muhammad Qaseem

Legal Advisor as to UAE law: **Denton Wilde Sapte**

26th Floor
API World Tower
Sheikh Zayed Road
P O Box 1756
Dubai
United Arab Emirates

Suite 1204
Al Ghaith Tower
Hamdan Street
P O Box 47656
Abu Dhabi
United Arab Emirates

This prospectus has been authorised by the Board of Directors of National Bonds Corporation and the Fatwa & Shari'a Supervisory Board.

Unless otherwise defined in this prospectus, or unless the context requires otherwise, the expressions used in this prospectus have the meanings given in the Terms and Conditions.

This prospectus has been prepared in accordance with all applicable legislation of the United Arab Emirates.

Under no circumstances shall the prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these National Bonds to an investor who is a citizen of or resident in any jurisdiction in which such offer, solicitation or sale would be unlawful.

No action has been or will be taken outside of the United Arab Emirates that would permit an offer of the National Bonds in any other country.

No listing of the National Bonds is being sought on any stock exchange.

National Bonds do not represent deposits or other liabilities of any bank with which the Mudaraba Assets are deposited.

National Bonds Corporation is licensed by the UAE Central Bank to undertake, amongst other matters, financial investment business and is a private joint stock company formed under the Companies Law.

Bond Holders' rights to invest in and apply for redemption of National Bonds are governed by the Shari'a and the Terms and Conditions contained in this prospectus and, by signing an Application, each Bond Holder agrees to the Terms and Conditions.

Each prospective Bond Holder must comply with all applicable laws and regulations in force in any jurisdiction which are applicable to him in relation to the purchase, holding or redemption of the National Bonds.

National Bonds Corporation may establish other investment funds and instruments including Shari'a compliant investment funds (*mudarabas*) and instruments independent of the National Bonds which will be subject to the provisions of separate prospectus documents and their terms and conditions.

National Bonds Corporation has entered into a Declaration of a Promise to Purchase in which it has promised to purchase for the applicable Redemption Amount:

- (a) National Bonds which are the subject of a Redemption Form (provided the requested redemption is made in accordance with the Terms and Conditions); and
- (b) All issued National Bonds on the occurrence of either of:
 - (i) the winding up of the National Bonds Mudaraba in accordance with Clause 30.2 of the Terms and Conditions; or
 - (ii) a final and non-appealable judgment being issued against the Mudareb in accordance with Clause 42 of the Terms and Conditions.

As part of the application process each Bond Holder must sign a Bond Holder Sale Undertaking which grants a call option to the Mudareb enabling it to purchase all of the Bond Holder's outstanding National Bonds for the applicable Redemption Amount in the event that the National Bonds Mudaraba is wound up.

SUMMARY OF THE OFFERING OF NATIONAL BONDS

The following summary is not intended to be complete and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information and conditions appearing elsewhere in this prospectus (including the Terms and Conditions) and related documents which are mentioned in this prospectus.

A DESCRIPTION OF THE OFFERING

National Bonds Mudaraba

National Bonds Corporation has established a Shari'a compliant investment fund (*mudaraba*) called National Bonds Mudaraba. National Bonds Mudaraba is and will be a separate Shari'a compliant investment fund (*mudaraba*) independent from any other investment fund (including any other Shari'a compliant investment fund (*mudaraba*)) that National Bonds Corporation may establish in the future. The objectives of the National Bonds Mudaraba are more detailed in this prospectus. The National Bonds Mudaraba is an open-ended investment fund as provided for in the Central Bank Regulations.

National Bonds

Each National Bond is an investment certificate (*mudaraba certificate*) in respect of the National Bonds Mudaraba which National Bonds Corporation has established. The National Bonds are subject to the Terms and Conditions and the other provisions of this prospectus, as may be amended from time to time.

Brief description of the National Bonds

The National Bonds being offered under this prospectus are investment certificates (*mudaraba certificates*) in relation to the National Bonds Mudaraba that represent the pool of funds received from the Bond Holders and which are held by and invested and managed on their behalf by National Bonds Corporation, as the Mudareb, in accordance with the Shari'a, the Terms and Conditions and the other provisions of this prospectus.

A National Bond represents an undivided share in the Mudaraba Assets (but does not confer any interest in any particular part of the Mudaraba Assets) and which also represents an entitlement to a share of the Distributable Profits generated by the Mudaraba Assets. Notwithstanding this, only the Mudareb is entitled to invest, manage and deal with the Mudaraba Assets in accordance with and subject to, the Shari'a, the provisions of the Terms and Conditions and the remaining provisions of this prospectus.

National Bonds can be entered into Prize Draws immediately upon the Application for the applicable National Bonds being accepted and the National Bonds being issued to the Bond Holder. Details regarding Prize Draws are contained in Clause 13 of the Terms and Conditions of the National Bonds.

The investment objectives and policy of the National Bonds Mudaraba pursuant to which the National Bonds have been issued are contained in Clauses 6 and 7 of the Terms and Conditions of the National Bonds.

Mudaraba nature of investment arrangements

By signing an Application and delivering it to National Bonds Corporation, a Bond Holder agrees to the investment (*mudaraba*) arrangements between the Bond Holders and National Bonds Corporation, as described in the Terms and Conditions and the provisions of this prospectus.

Each Bond Holder is an investor (*rabb al mal*). National Bonds Corporation is the investment manager (*Mudareb*) and, in accordance with the Terms and Conditions and the remaining provisions of this prospectus, will use its efforts and skill to invest and manage the Mudaraba Assets for the Bond Holders.

The Bond Holders, each in their capacity as investors (*rabb al mal*), will not have any right to be involved or participate in the investment or management of the Mudaraba Assets, which right is solely vested in the Mudareb.

Distributable Profits arising from the Mudaraba Assets will be split in the ratio of 80:20 in favour of National Bonds Corporation and the Bond Holders respectively, although, as described in Clause 43 of the Terms and Conditions, the Mudareb may be entitled to be paid an Annual Incentive from part of the Bond Holders' entitlement to Distributable Profits.

National Bonds Corporation may from time to time allocate such amounts from its own resources (including any share of its Distributable Profits as the Mudareb may in its sole and absolute discretion decide) to be distributed (in such amounts as it may in its sole and absolute discretion from time to time decide) by way of prizes through Prize Draws amongst the Bond Holders. At no time shall any of these payments be made from the profit entitlement of the Bond Holders.

Fatwa & Shari'a Supervisory Board

The National Bonds Mudaraba has its own Fatwa & Shari'a Supervisory Board whose pronouncements and decisions shall be binding, and which has approved the Shari'a compliant investment fund (*mudaraba*) arrangements described in this prospectus.

The current members of the Fatwa & Shari'a Supervisory Board are:

- Dr Hussain Hamid Hassan
- Dr. Ajeel Jasim al Nashmi
- Mr. Muhammad Qaseem

As provided in the Terms and Conditions and the provisions of this prospectus, the Fatwa & Shari'a Supervisory Board has a duty to monitor and approve the activities of National Bonds Corporation acting in its capacity as the investment manager (*Mudareb*) of the National Bonds Mudaraba, namely:

- Approving contracts and sample agreements for financial transactions executed by the Mudareb.
- Monitoring the Mudareb's transactions and reviewing its activities from a Shari'a point of view for specified periods to ensure that executed transactions have been in line with the features of the products approved by the Fatwa & Shari'a Supervisory Board.
- Suggesting Shari'a compliant solutions for issues relating to financial transactions which are not consistent with the principles and rules of the Shari'a.
- Opining on the transactions of the National Bonds Mudaraba placed before it by the Board of Directors or the Chief Executive Officer of National Bonds Corporation.
- Submitting to the Board of Directors of National Bonds Corporation such advice it deems appropriate on any matter relating to the transactions of the National Bonds Mudaraba.
- Submitting its reports and observations periodically every three months or whenever required to each of the Chief Executive Officer and the Board of Directors.
- Submitting to the Board of Directors an annual report containing its opinion as to the extent of the conformity of the transactions of the National Bonds Mudaraba with the provisions of the Shari'a and any observations it may have in that regard.

If the Fatwa & Shari'a Supervisory Board rules that an investment or any other activity performed by National Bonds Corporation in its capacity as the Mudareb of the National Bonds Mudaraba has not been in compliance with the Shari'a, the profits from the applicable investment will be donated to charity. To the extent that such non-compliance is attributable to the gross negligence or wilful default

of the Mudareb, Clause 5.3 of the Terms and Conditions provides that the Mudareb must indemnify the National Bonds Mudaraba for any losses that it directly suffers from such non-compliance.

A Shari'a audit department shall be established for the purpose of conducting a Shari'a audit of the transactions undertaken by the National Bonds Mudaraba.

The investment and management of the Mudaraba Assets by the Mudareb must be Shari'a compliant and the investment, or the type of investment, must have been approved by the Fatwa & Shari'a Supervisory Board. A description of how the Mudaraba Assets will be invested is to be found in Clause 7 of the Terms and Conditions of the National Bonds.

Establishment and duration

The term of the National Bonds will be five (5) years as from the Initial Issue Date.

However:

- (a) National Bonds Corporation may automatically renew the term upon notice to the Bond Holders for one or more periods of five years as it shall from time to time decide provided that any renewal shall be without prejudice to the right of the Bond Holders to redeem their National Bonds as provided in the Terms and Conditions;
- (b) the term can be ended early if National Bonds Corporation certifies in writing that, in its opinion, it is in the interests of the Bond Holders that National Bonds Corporation and/or the National Bonds Mudaraba should be wound up,

and with the Bond Holders being so notified in writing. In the case of an extension of the term, the notice shall contain details, as far as reasonably possible, about Shari'a compliant specific projects in which the Mudaraba Assets are already invested and in which they will be invested.

Notwithstanding the above, as provided in Clause 41 of the Terms and Conditions, if Bond Holders as of the relevant record date who own 25% or more of the aggregate face value of the issued National Bonds notify the Mudareb that they object to the proposed term extension, the proposed term extension shall not be effective.

Maximum number of National Bonds

There is no maximum number or amount of National Bonds that may be issued or remain outstanding at any time. However, National Bonds Corporation may, in its absolute discretion, refuse to accept, in whole or in part, any Application without providing reasons for that refusal.

Minimum holding of National Bonds

As at the date of this prospectus, there is no minimum number of National Bonds that a Bond Holder must hold. However, the Mudareb can from time to time change the minimum holding requirement by notice to the Bond Holders.

Minimum number of National Bonds to be purchased or redeemed

The minimum number of National Bonds that must be purchased in any Application is ten (10) National Bonds and the minimum number of National Bonds that can be redeemed in any Redemption Form is ten (10) National Bonds.

Price

The price for a National Bond for which an Application is accepted will be AED 10.

Fees and Deductions

The Mudareb reserves the right for the National Bonds Mudaraba to charge various fees (but with the prior approval of the Fatwa & Shari'a Supervisory Board) including, without limitation, a Redemption Fee. The Mudareb will notify the Bond Holders from time to time of the introduction, amendment or cancellation of any such fees.

Fees may be payable by the Mudareb to Authorised Outlets. These fees will be treated as operating expenses of the National Bonds Mudaraba.

On a winding up of the National Bonds Mudaraba, the Mudareb is entitled to receive the Final Incentive Fee payable from the Mudaraba Assets in accordance with Clause 30.2 of the Terms and Conditions.

The Mudareb may be entitled to be paid an Annual Incentive as more fully described in Clause 43 of the Terms and Conditions.

Bond Holder Sale Undertaking

As part of the application process each Bond Holder must sign a Bond Holder Sale Undertaking which grants a call option to National Bonds Corporation (acting in a capacity totally independent from its capacity as the Mudareb) enabling it to purchase all of the Bond Holder's outstanding National Bonds for the applicable Redemption Amount in the event that the National Bonds Mudaraba is wound up.

At that time a Final Incentive Fee may be paid to the Mudareb out of the Mudaraba Assets. The payment of the Final Incentive Fee shall be conditional upon each Bond Holder existing on the date that the National Bonds Mudaraba is to be ended having received a 3% p.a. cumulative return taking into account the period that they have held the National Bonds. To the extent that the return is less than 3% p.a., they must be paid an amount from any capital gains arising on the termination of the National Bonds Mudaraba so that their cumulative return is 3% p.a. (to the extent that there are sufficient Mudaraba Assets to make such additional payment).

For the avoidance of doubt, there is no guarantee that a 3% p.a. return will be achieved for the Bond Holders and, furthermore, the payment of any additional amount to the Bond Holders as mentioned above, is always subject to there being sufficient Mudaraba Assets available.

Once all Bond Holders existing on the date that the National Bonds Mudaraba is to be ended have achieved such cumulative return of 3% p.a., then the balance of the Mudaraba Assets (if any) will be paid to the Mudareb as the Final Incentive Fee.

B NATIONAL BONDS CORPORATION, MUDAREB AND AUDITOR

National Bonds Corporation

National Bonds Corporation is a private joint stock company established under the Companies Law and is licensed by the Central Bank to undertake, amongst other matters, financial investment business.

The address of its main office is Emaar Business Park, Building 1, 7th Floor, Sheikh Zayed Road, Dubai, United Arab Emirates

The objects of National Bonds Corporation are, amongst other matters, to set up investment funds (including Shari'a compliant investment funds) and to organise prize draws and distribute prizes (in an Shari'a compliant manner).

The Chairman of National Bonds Corporation is Mr Mohammad Ibrahim Abdulrahman Al-Shaibani, UAE National.

The other Board members as at the date of this prospectus are:

- Fadel Abdulbaqi Abu Alhasam Alqaed Al-Ali, UAE National;
- Ziad Khalil Makkawi; French citizen;
- Ghaith Saeed Khalaf Al-Ghaith; UAE National; and
- Nasser Hassan Mohd. Bin Al-Shaikh, UAE National.

The Mudareb

National Bonds Corporation is the Mudareb of the National Bonds Mudaraba.

Acting as a mudareb is one of the legal functions in achieving the objects of National Bonds Corporation. Each Bond Holder appoints National Bonds Corporation as the Mudareb in relation to the National Bonds Mudaraba by submitting a duly completed and signed Application which contains the acceptance of the Terms and Conditions by each Bond Holder.

Registrar

The Registrar of the National Bonds Mudaraba is National Bonds Corporation although the Mudareb can from time to time appoint and dismiss another person to be the Registrar and on such terms as it considers appropriate. National Bonds Corporation is not currently charging a fee for acting as the Registrar.

Bankruptcy

Neither National Bonds Corporation nor any of the members of the Board of Directors has, during the five years preceding the date of this prospectus, been:

- adjudged bankrupt or insolvent;
- prohibited from acting as a director of a company;
- convicted of any crime involving dishonesty; or
- placed in statutory management or receivership.

Auditor

The Auditor of National Bonds Mudaraba is Ernst & Young whose address is P.O. Box 9267, Dubai, UAE.

Indemnity in favour of the investment manager (*Mudareb*)

Except as provided in the Terms and Conditions, National Bonds Corporation is entitled to be indemnified and reimbursed out of the Mudaraba Assets to the full extent of any liability in relation to any debt, liability, obligation or claim incurred by the Mudareb arising out of the performance of its duties as the Mudareb. Such indemnity shall also extend to the costs of any litigation, other proceedings or other action taken in respect of the liability.

Indemnity by the Mudareb

Clause 4.1 of the Terms and Conditions imposes an obligation on the Mudareb to indemnify the Bond Holders in certain circumstances.

No Guaranteed Profit Return or Prizes by National Bonds Corporation

Subject to the provisions of the Terms and Conditions and this prospectus, National Bonds Corporation (including when acting as the investment manager (*Mudareb*)) does not guarantee the payment of any profits or prizes on the National Bonds.

Promise to purchase

National Bonds Corporation has entered into a Declaration of a Promise to Purchase in which it has promised to purchase for the applicable Redemption Amount:

- (a) National Bonds which are the subject of a Redemption Form (provided the requested redemption is made in accordance with the Terms and Conditions); and
- (b) All issued National Bonds on the occurrence of either of:
 - (i) the winding up of the National Bonds Mudaraba in accordance with Clause 30.2 of the Terms and Conditions; or
 - (ii) a final and non-appealable judgment being issued against the Mudareb in accordance with Clause 42 of the Terms and Conditions.

C FUNDING ARRANGEMENTS

If additional funding is required by National Bonds Corporation (including future funding that National Bonds Corporation may require for the payment of prizes to the Bond Holders if its profit entitlement arising out of the National Bonds Mudaraba is not sufficient to fund the level of prizes that it would wish), various alternatives are open to National Bonds Corporation, including the payment by its shareholders of any uncalled amounts on the issued capital of National Bonds Corporation.

National Bonds Corporation may also make available such amounts of these funds to the National Bonds Mudaraba by way of a profit free loan (*qardh al hassan*) as may be required for the operations of the National Bonds Mudaraba.

D PROJECTED PROFIT RETURNS

National Bonds Corporation, in its capacity as the Mudareb, has undertaken a due diligence exercise in relation to the expected performance of the National Bonds Mudaraba and, in this connection, the Feasibility Study has been produced. Potential investors should be aware that the projected Distributable Profit for the Bond Holders which is mentioned in this Prospectus and which is drawn from the Feasibility Study, should not be read as to be a guarantee that such profit return will be achieved; the actual profit return may be less or it may be more due to reasons beyond the control of the Mudareb.

The Feasibility Study is based on the National Bonds Mudaraba ultimately investing sixty percent (60%) of the Mudaraba Assets in Shari'a compliant pre-identified new projects (within the categories described in Clause 7 of the Terms and Conditions) and forty percent (40%) of the Mudaraba Assets in those Shari'a compliant investments as described in Clause 7 of the Terms and Conditions.

Initially the Mudaraba Asset allocation will not be 60:40 as described above as it will take time to deploy the investment monies received from the Bond Holders in pre-identified Shari'a compliant new projects but the Mudareb expects to reach that level of deployment within two years of the Initial Issue Date.

It is also envisaged that initially the investments in Shari'a compliant projects will not be in pre-identified Shari'a compliant new projects as it will take time for the Mudareb to locate suitable Shari'a compliant investment projects and so, for the first two (2) years, it is likely that all or some of the 60% allocation will not be in new Shari'a compliant investment projects. The intention of the Mudareb is that within two (2) years of the Initial Issue Date, the 60% allocation will, as far as possible, be in new Shari'a compliant pre-identified investment projects.

Investments in pre-identified Shari'a compliant projects, constituting 60% of the Mudaraba Assets, are expected to be mainly in infrastructure and development projects. The projected profits on this part of the Mudaraba Assets are expected to be in the range of 15% – 25% p.a..

Investments in a pool of short-term Shari'a compliant financial products and investments, representing 40% of the Mudaraba Assets, are expected to include shares, sukuk, funds and portfolios. In order to raise the overall profitability of this part of the portfolio, small allocations will be made to equities (typically those included in the recognized Islamic indices or otherwise in Shari'a permitted industries and companies). The overriding consideration in structuring this portion of the portfolio is to provide liquidity at a short notice as required by the Mudareb. The profit rate on this part of the Mudaraba Assets is expected to be in the range of 4-6% p.a.

After the first year, the investment of the entire National Bonds Mudaraba capital will seek to achieve an overall expected rate of return of 15% p.a. As the Distributable Profits will be split in the ratio of 80:20 in favour of National Bonds Corporation and the Bond Holders, respectively, this results in an indicative rate of profit of 3% p.a. for the Bond Holders.

E CERTAIN RISK FACTORS

The performance of the National Bonds Mudaraba is subject to various risks which means that there can be no assurance that:

- the investment objectives of the National Bonds Mudaraba will be achieved; or
- there will be any profits on the National Bonds; or
- a Bond Holder will win a prize or that a prize will produce, for the Bond Holder, a market related return in respect of that Bond Holder's holding of National Bonds.

(a) General Risk Factors

National Bonds Corporation is a newly established company and the National Bonds are a novel Shari'a compliant product. Therefore, there is no historical data to determine how successful the National Bonds Mudaraba will be.

The Mudareb will seek to reduce risks associated with investment in the National Bonds Mudaraba in a number of ways but it is not possible to eliminate all risks.

There can be no assurance that the National Bonds Mudaraba will achieve its investment objectives. It is always possible that the National Bonds Mudaraba could lose all or part of the capital that it makes in a particular investment and this could materially impact, in an adverse manner, the performance of the National Bonds Mudaraba.

(b) Specific Risk Factors

(i) Investment Risks

There are risks in relation to the return of the National Bonds Mudaraba in connection with the investments that will be made but, to mitigate this risk, there will be an investment committee which will meet at least every three months and which shall initially be chaired by Mr. Ziad Makkawi, a member of the Board of Directors.

In addition, National Bonds Corporation, as the Mudareb, will also appoint one or more asset management firms to assist in the management of the investments.

(ii) Insolvency Factors

One or more of the counter-parties to investments made by the National Bonds Mudaraba could experience an event of insolvency, which could lead to a loss with respect to that investment. While the Mudareb will take prudent measures to mitigate against such risks, there can be no assurance that the National Bonds Mudaraba will not experience losses due to such insolvency events.

(iii) *Infrastructure projects and other projects*

Investments in infrastructure projects and other projects involve high risks especially during the initial construction phase with the risk profile diminishing once the construction phase ends. There can be no certainty that a project will be completed on time or for the projected cost and any time delay or additional costs could adversely impact on the profit returns to the Bond Holders.

(iv) *Competition Factors*

It is possible that competitive products may be introduced. While the Mudareb believes that it is well positioned to meet this competition, there can be no assurance that competition will not adversely affect the performance of the National Bonds Mudaraba.

(v) *Lack of Transferability*

None of the National Bonds have been or will be registered under the securities law of any country and none of the National Bonds may be transferred except under limited circumstances as described in the Terms and Conditions. However, subject to the Terms and Conditions, they can be freely redeemed.

(vi) *Foreign Exchange Risk*

To the extent that the National Bonds Mudaraba makes investments that are denominated in currencies other than the UAE Dirham or the United States Dollar (on the assumption that the US Dollar and the UAE Dirham remain pegged), the value of the assets of the National Bonds Mudaraba measured in UAE Dirhams will be affected by changes in foreign exchange rates. The Mudareb will employ various Shari'a compliant techniques to minimize this exposure, although there is no certainty that any foreign exchange risk can be totally avoided.

(vii) *Legal, Political and Economic Risks*

The legal systems in the UAE and other countries in the Middle East are, arguably, not as developed as in other jurisdictions and this may, in certain instances, affect the performance of the National Bonds Mudaraba.

Unforeseen changes in the economic and political systems in the UAE and surrounding countries may have an adverse effect on the performance of the National Bonds Mudaraba.

(viii) *Legal Status of the National Bonds Mudaraba*

The National Bonds Mudaraba is not a separate legal entity and as such the Bond Holders are taking a credit risk on National Bonds Corporation and would be unsecured creditors of National Bonds Corporation in the event of the insolvency or liquidation of National Bonds Corporation.

The risks mentioned in (a) and (b) above do not purport to be a complete explanation of all of the risk factors. If a potential Bond Holder has any concerns, they should contact their professional advisers.

(c) **Potential mitigation of some of these risk factors**

While, depending on the performance of the National Bonds Mudaraba and the impact of the General Risks and Special Risks mentioned above, a Bond Holder might not recover the full amount which they originally invested in National Bonds, this risk has been mitigated by the Bond Holders having the benefit of the Declaration of a Promise to Purchase from National Bonds Corporation. The degree of mitigation of this risk will depend on the financial ability of National Bonds Corporation to meet its obligations under the Declaration of a Promise to Purchase.

F TAXATION ISSUES

It is the responsibility of all persons interested in purchasing National Bonds to inform themselves as to any income or other tax consequences arising in the jurisdictions in which they are resident or domiciled for tax purposes, which are relevant to their particular circumstances in connection with the acquisition, holding or redemption of the National Bonds.

Prospective investors should consult their own advisors in the countries of their citizenship, residence or domicile to determine the possible tax or other consequences of purchasing, holding or redeeming National Bonds under the laws of such jurisdictions.

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TERMS AND CONDITIONS OF THE NATIONAL BONDS

1 DEFINITIONS AND INTERPRETATION

1.1 Definitions

In these Terms and Conditions and in the provisions of this prospectus, unless the context otherwise requires:

Accrued Bond Holder Profit Entitlement means the amount standing to the credit from time to time in the Bond Holder Profit Account of a Bond Holder;

AED means the lawful currency from time to time of the UAE;

Annual Incentive means the payment that may be made to the Mudareb out of the Distributable Profits as described in Clause 43 of the Terms and Conditions;

Application means an application form to be used to apply for National Bonds, in such form and content as the Mudareb may from time to time specify;

Approved Outlet means an outlet approved and authorised by the Mudareb pursuant to an Approved Outlet Agreement whereby such outlet will be authorised to deal with certain administrative functions relating to the application for and redemption of, the National Bonds;

Approved Outlet Agreement means an agreement between National Bonds Corporation and an Approved Outlet;

Auditor means Ernst & Young or such other firm as may be appointed by National Bonds Corporation from time to time and in accordance with the Terms and Conditions;

Board of Directors means the board of directors of National Bonds Corporation;

Bond Holder means a holder of a National Bond;

Bond Holder Profit Account means the book entry made in the accounts and records of the National Bonds Mudaraba which records the profit entitlements of a Bond Holder;

Bond Holder Sale Undertaking means the grant of a call option to the Mudareb as part of the Application enabling the Mudareb to purchase all of the Bond Holder's outstanding National Bonds for the applicable Redemption Amount in the event that the National Bonds Mudaraba is wound up;

Business Day means a day when commercial banks are open for business in the UAE;

Central Bank means the Central Bank of the UAE;

Central Bank Regulations means the regulations of the Central Bank that are from time to time applicable to the National Bonds Mudaraba including the resolution of the board of directors of the Central Bank number 164/8/94, as amended or re-enacted from time to time;

Companies Law means the commercial companies law of the UAE (Federal Law No. 8 of 1984, as amended);

Declaration of a Promise to Purchase means that declaration entered into by National Bonds Corporation in favour of the Bond Holders dated as of the Initial Issue Date in which it has promised to purchase for the applicable Redemption Amount:

- (a) National Bonds which are the subject of a Redemption Form (provided the requested redemption is made in accordance with the Terms and Conditions); and

- (b) All issued National Bonds on the occurrence of either of:
- (i) the winding up of the National Bonds Mudaraba in accordance with Clause 30.2 of the Terms and Conditions; or
 - (ii) a final and non-appealable judgment being issued against the Mudareb in accordance with Clause 42 of the Terms and Conditions.

Distributable Profit means in relation to any Financial Year, the value of the Mudaraba Assets on 31 December **less**:

- unrealised capital gains that are not considered as income for that Financial Year; and
- the capital of the National Bonds Mudaraba as at 31 December (being the aggregate of the face value of the then issued National Bonds); and
- the operating expenses of the National Bonds Mudaraba for that Financial Year;

Fatwa & Shari'a Supervisory Board means the board constituted to monitor Shari'a compliance by the National Bonds Mudaraba as described in Clause 5;

Feasibility Study means the feasibility study produced for the Mudareb which indicates that, after the first year, the investment of the entire National Bonds Mudaraba capital will be aimed at seeking to achieve an overall expected rate of return of 15% p.a. which, as the Distributable Profits will be split in the ratio of 80:20 in favour of National Bonds Corporation and the Bond Holders, respectively, results in an indicative rate of profit of 3% p.a. for the Bond Holders;

Final Incentive Fee means the fee to be paid to the Mudareb out of the Mudaraba Assets on a winding up of the National Bonds Mudaraba that shall equal the excess of the then value of the Mudaraba Assets over:

- (a) the capital contributed by the Bond Holders at the time of the winding up (being the aggregate of the face value of the then issued National Bonds); and
- (b) the accrued and unpaid profit entitlements at that time of the Bond Holders.

The payment of the Final Incentive Fee shall be conditional upon each Bond Holder existing on the date that the National Bonds Mudaraba is to be ended having received a 3% p.a. cumulative return taking into account the period that they have held the National Bonds. To the extent that the return is less than 3% p.a., they must be paid an amount from any capital gains arising on the termination of the National Bonds Mudaraba so that their cumulative return is 3% p.a. (to the extent that there are sufficient Mudaraba Assets to make such additional payment).

For the avoidance of doubt, there is no guarantee that a 3% p.a. return will be achieved for the Bond Holders and, furthermore, the payment of any additional amount to the Bond Holders as mentioned above, is always subject to there being sufficient Mudaraba Assets available.

Once all Bond Holders existing on the date that the National Bonds Mudaraba is to be ended have achieved such cumulative return of 3% p.a., then the balance of the Mudaraba Assets (if any) will be paid to the Mudareb as the Final Incentive Fee;

Financial Year has the meaning given to it in Clause 15;

Government Person means the Government of the UAE or any Emirate together with its departments, governmental entities, public corporations and agencies;

Guardian means a person other than a parent of a Minor who has the legal right to represent and act on behalf of a Minor;

IFRS means the international financial reporting standard as applied in the UAE;

Initial Issue Date means 18 March 2006;

Mentally Disordered Person means a person who is incapable, by reason of mental disorder, of managing and administering his property and affairs;

Minor means a person whose legal status under applicable law is that of a child;

Mudaraba Assets means the assets at any time of the National Bonds Mudaraba;

Mudareb means National Bonds Corporation acting in the capacity as the investment manager (*Mudareb*) and sharing in the profits of the National Bonds Mudaraba at a fixed percentage as described in the Terms and Conditions;

National Bond means an investment certificate (*mudaraba certificate*) in relation to the National Bonds Mudaraba that represents a share in the pool of funds received from the Bond Holders and which are invested and managed by the Mudareb by way of mudaraba in accordance with the Shari'a, the Terms and Conditions and the other provisions of this prospectus;

Prize Draw means the randomly based draw for ascertaining which Bond Holders will win prizes;

Receiver means, in relation to any act or thing done in respect of a Mentally Disordered Person, a receiver or other person authorised in that behalf to act on behalf of such person;

Redemption Amount means:

- (a) the amount payable (after any Redemption Fee) in respect of National Bonds which are being redeemed and which shall be the number of National Bonds being redeemed multiplied by the Redemption Price; and
- (b) any Accrued Bond Holder Profit Entitlement;

Redemption Fee means such fee as the Mudareb may from time to time determine (and as may be approved by the Fatwa & Shari'a Supervisory Board) which is payable on the redemption of National Bonds to cover certain administrative costs such as, without limitation, bank transfer charges;

Redemption Form means the form to be submitted to the Mudareb in such form and content as the Mudareb shall from time to time determine in which a Bond Holder requests the redemption of all or part of its holding of National Bonds;

Redemption Price means, for each National Bond, a price based on the fair value of the Mudaraba Assets declared by the Mudareb from time to time (and taking into account, amongst other matters, Clause 8.2 of the Terms and Conditions and the right of the Mudareb to the Annual Incentive and the Final Incentive Fee, as applicable).

Register means the register of Bond Holders maintained by the Registrar;

Registrar means National Bonds Corporation or such other person as the Mudareb may from time to time appoint to undertake this function as described in this prospectus;

Reserve Fund means:

- (a) that part of the Mudareb's share of the Distributable Profits (whether paid "on account" or not); and
- (b) other amounts from the Mudareb's other resources,

that the Mudareb may from time to time in its sole and absolute discretion choose to be maintained in the Reserve Fund Account for the purpose of voluntary distribution from time to time (in the sole and absolute discretion of the Mudareb) amongst the Bond Holders by way of Prize Draws and in accordance with the Terms and Conditions;

Reserve Fund Account means an account maintained in the name of the National Bonds Corporation with an Islamic financial institution in which moneys representing the Reserve Fund are kept;

Terms and Conditions means these term and conditions;

Trustee means a person who has been appointed to be a trustee under a trust or by law; and

UAE means the United Arab Emirates.

1.2 Interpretation

Unless expressed to the contrary or the context otherwise requires, the provisions of this Clause 1.2 shall apply:

- (a) an **amendment** includes a supplement, novation or re-enactment and any grammatical derivative of the word "amend" is to be construed accordingly;
- (b) **assets** includes present and future properties, revenues, book-debts and other debts, claims and rights (including amongst other matters, intellectual property rights) and rights of every description;
- (c) **including** is not limiting and means **including without limitation**;
- (d) a reference to a provision of any law or statute is a reference to that provision as amended or re-enacted;
- (e) a reference to this prospectus or another agreement, document or instrument is a reference to this prospectus or other agreement, document or instrument as amended in accordance with its terms or which has been replaced as provided in accordance with the provisions of this prospectus or such other agreement, document or instrument;
- (f) references to clauses, schedules and paragraphs are a reference to clauses, schedules and paragraphs of this prospectus in which such references appear;
- (g) references to clause, schedule and paragraph headings are for ease of reference only and shall not be taken into account for the purposes of interpretation or construction of any provision of this prospectus;
- (h) a reference to a **person** includes any natural person, firm, company, corporation, trust, agency or partnership and any governmental ministry, department, agency or authority (whether or not having a separate legal personality) or any two or more of the foregoing;
- (i) a reference to the singular shall include a reference to the plural, and vice versa;
- (j) a reference to one gender shall be taken as a reference to any other gender;
- (k) a reference to time of day is a reference to UAE time;
- (l) a reference to a month or a year is a reference to a calendar month or year calculated by reference to the Gregorian calendar;

- (m) a word or term defined in these Terms and Conditions which is used in any notice or other communication given pursuant or in connection with these Terms and Conditions, shall have the same meaning attributed to it as attributed to it in these Terms and Conditions;
- (n) any approval or agreement or consent or notice required to be given, or which may be given, by National Bonds Corporation shall only be valid if made in writing and signed by a duly authorised representative of National Bonds Corporation; and
- (o) save where the context otherwise requires, references to any person shall include references to its successors and permitted transferees and assigns.

THE ROLES AND FUNCTIONS OF THE BOND HOLDERS (AS INVESTORS (RABB AL MAL)) AND NATIONAL BONDS CORPORATION (AS THE MUDAREB)

2 APPOINTMENT OF NATIONAL BONDS CORPORATION AS THE MUDAREB; ROLE OF AN INVESTOR

2.1 Appointment of National Bonds Corporation

By signing and delivering the Application to National Bonds Corporation, an applicant irrevocably appoints National Bonds Corporation as the Mudareb in relation to:

- (a) holding the legal title of the Mudaraba Assets; and
- (b) the investment and management of the amounts paid by the applicant for National Bonds,

in accordance with and subject to, these Terms and Conditions.

2.2 Role as an investor (*rabb al mal*)

Each Bond Holder agrees that:

- (a) he is an investor (*rabb al mal*) and, in this capacity, has no right to be engaged or involved in the management or investment of the Mudaraba Assets or in the operation of the National Bonds Mudaraba or any of the Mudaraba Assets; and
- (b) the National Bonds being offered under this prospectus are investment certificates (*mudaraba certificates*) that represent the pool of funds received from the Bond Holders and which are held, invested and managed by the Mudareb.

3 POWERS AND AUTHORITIES OF NATIONAL BONDS CORPORATION

3.1 General

Within the limits described in Clauses 5, 6 and 7, the Mudareb shall have complete and full discretion and authority to manage and take whatever action it deems necessary to receive, invest and manage the Mudaraba Assets. In this regard each Bond Holder authorises National Bonds Corporation to take such action and to exercise such rights, remedies, powers and discretions as may be required by National Bonds Corporation to fulfil its obligations as the Mudareb towards the Bond Holders.

3.2 Power to appoint

The Mudareb has the full power to appoint any of its officers and employees or any third party as it may consider appropriate, to perform certain activities and functions, whether or not such activities or functions require or involve National Bonds Corporation's judgment or discretion.

Without limiting these powers, this power permits the Mudareb, from time to time, to appoint and remove (and fix the remuneration of) persons such as custodians and administrators.

From time to time the Mudareb may appoint a person or persons by power of attorney (or such other authority document as it considers appropriate) to be its attorney and/or agent with such powers, authorities and discretions as the Mudareb thinks fit. The Mudareb may from time to time revoke such appointments.

The Mudareb shall remain liable for the acts or omissions of any of its agents, attorneys, officers or employees, sub-delegates or sub-agents who are appointed or to whom any such delegation is made.

3.3 Obtaining finance for the National Bonds Mudaraba

The Mudareb may raise money in a Shari'a compliant manner on behalf of the National Bonds Mudaraba and provide security and give guarantees if, in good faith, it considers that it is necessary or desirable to do so in the general interests of the Bond Holders or for the purposes of conducting the investment, management or other operations of the Mudaraba Assets in accordance with these Terms and Conditions and the provisions of this prospectus, including the redemption of any National Bonds from time to time.

3.4 Exercise of voting rights

If any of the Mudaraba Assets consist of shares or other Mudaraba Assets that have voting rights, the Mudareb is fully authorised to vote or not to vote those rights in such manner as it deems appropriate.

3.5 No obligation to act; authority to refrain from acting

The Mudareb is not obliged to take any action or exercise any rights, remedies, powers or discretions under or pursuant to any of the Mudaraba Assets. In addition, the Mudareb may refrain from acting in relation to any of the Mudaraba Assets until it is satisfied that it will not incur any liability in taking such action.

3.6 Due diligence and utmost care

The Mudareb as an agent and trustee is obliged to act with due diligence and with the utmost care in safeguarding and preserving the Mudaraba Assets. In addition, the Mudareb is responsible for managing the Mudaraba Assets in a professional manner and for taking investment decisions in a prudent manner in line with common market practice.

3.7 Reliance on information

The Mudareb may rely on any information, communication, instrument or document believed by it to be genuine and correct and to have been signed or sent by the proper person and, in relation to legal or other professional matters, may rely on the opinions and statements of any legal or other professional advisers which it selects or approves. Notwithstanding the above, the Mudareb must act with due diligence and necessary care.

3.8 Holding legal title to the Mudaraba Assets

By signing and delivering a completed Application to National Bonds Corporation, an applicant:

- (a) irrevocably appoints the Mudareb as the person which shall hold the legal title to the Mudaraba Assets; and
- (b) confirms that these instructions shall be irrevocable whilst the applicant is a Bond Holder on the basis that any attempt to cancel such instructions will cause irreparable damage to the National Bonds Mudaraba and the other Bond Holders.

3.9 Independent investment

The Bond Holders, in their capacity as the *rabb al mal*, agree that National Bonds Corporation, in its capacity as the Mudareb, can co-invest its own monies in investments in which the Mudaraba Assets are being employed.

Any sharing of profits arising from such common investment will be done on a pro rata basis by reference to the amount of the Mudaraba Assets invested in such investment compared with the independent co-investment made by National Bonds Corporation, as the Mudareb, in such investment.

The profits arising from the investment will be divided pro rata as described above. The pro rata allocated amount which is the entitlement of the *rabb al mal* will then fall to be included in the profits of the National Bonds Mudaraba which are to be divided amongst the Mudareb and the Bond Holders as described in Clause 8.5 of the Terms and Conditions

4 LIABILITY OF NATIONAL BONDS CORPORATION

4.1 No general liability for loss of investment; indemnity in limited circumstances

The Mudareb will not be liable to any Bond Holder for any loss to his investment to the extent that such loss occurs as a result of the Mudareb discharging its duties in the ordinary course but provided the Mudareb is not grossly negligent or in wilful default of its duties.

Notwithstanding the above, the Mudareb is responsible for the Feasibility Study results and projections and any failure on its part, as the Mudareb, to meet those projections shall result in it being liable to return the capital to the Bond Holders unless it proves that the failure to meet the projected targets is due to unavoidable reasons which are beyond its control and which could neither be foreseen nor avoided at the time the Feasibility Study was prepared.

The Mudareb indemnifies the Bond Holders in respect of any such liability mentioned above.

4.2 No general liability for obligations and claims relating to the National Bonds Mudaraba

To the fullest extent permitted by law, National Bonds Corporation is not under any personal liability for the satisfaction of any debt, liability, obligation or claim arising out of or in connection with any contract or other obligation of the National Bonds Mudaraba.

If National Bonds Corporation (in any capacity) is held personally liable to any person in respect of any such debt, liability, obligation or claim incurred by or on behalf of the National Bonds Mudaraba, or any action taken or omitted in connection with the National Bonds Mudaraba, then, to the fullest extent permitted by law, National Bonds Corporation is entitled to be indemnified and reimbursed out of the Mudaraba Assets to the full extent of:

- (a) such liability; and
- (b) the costs of any litigation, other proceedings or other action that determines such liability.

National Bonds Corporation has the right to be indemnified and reimbursed out of the Mudaraba Assets for all expenses, costs and liabilities that it incurs in acting as the Mudareb. Without limitation, these expenses or liabilities include those that National Bonds Corporation may incur or which may be incurred by National Bonds Corporation in establishing the National Bonds Mudaraba or in bringing or defending any action or suit in respect of the National Bonds Mudaraba or the provisions of this prospectus.

The indemnity does not apply to circumstances where the loss has arisen out of the Mudareb's gross negligence or wilful default.

4.3 Declaration of a Promise to Purchase

National Bonds Corporation has entered into a Declaration of a Promise to Purchase in which it has promised to purchase for the applicable Redemption Amount:

- (a) National Bonds which are the subject of a Redemption Form (provided the requested redemption is made in accordance with the Terms and Conditions);
- (b) All issued National Bonds on the occurrence of either of:
 - (i) the winding up of the National Bonds Mudaraba in accordance with Clause 30.2 of the Terms and Conditions; or
 - (ii) a final and non-appealable judgment being issued against the Mudareb in accordance with Clause 42 of the Terms and Conditions.

4.4 No guarantee of profits or that a Bond Holder will win a prize

National Bonds Corporation (including in its capacity as the Mudareb) does not guarantee the payment of any profits on the National Bonds to the extent that losses occur as a result of the Mudareb discharging its duties in the ordinary course but provided the Mudareb is not grossly negligent or in wilful default of its duties.

There is no assurance that a Bond Holder will win a prize or that a prize will produce, for the Bond Holder, a market related return in respect of that Bond Holder's holding of National Bonds.

SHARI'A MATTERS

5 SHARI'A COMPLIANCE

5.1 Role of Fatwa & Shari'a Supervisory Board

All investment activities undertaken by National Bonds Corporation acting as the investment manager (*mudareb*) shall be in compliance with the Shari'a and, in this regard, the Fatwa & Shari'a Supervisory Board shall regularly monitor such compliance. The decisions and pronouncements of the Fatwa & Supervisory Board shall be binding on the Mudareb.

5.2 Main functions

The functions of the Fatwa & Shari'a Supervisory Board in relation to the National Bonds Mudaraba shall include:

- Participating with the officers of National Bonds Corporation in settling formats for contracts, agreements and operations in relation to all of the National Bonds Mudaraba's transactions with investors and third parties; amending and developing such formats as necessary; preparing the contracts to be entered into by National Bonds Corporation as the Mudareb where there are no formats have been previously settled, and all this being with the object of ensuring conformity of the said contracts, agreements and operations with the provisions of the Shari'a.
- Opining on the transactions of the National Bonds Mudaraba placed before it by the Board of Directors or the Chief Executive Officer of National Bonds Corporation.
- Submitting to the Board of Directors any advice it deems appropriate on any matter relating to the transactions of the National Bonds Mudaraba.
- Submitting its reports and observations periodically every three months or whenever required to each of the Chief Executive Officer and the Board of Directors.

- Submitting to the Board of Directors an annual report containing its opinion as to the extent of the conformity of the transactions of the National Bonds Mudaraba with the provisions of the Shari'a and any observations it may have in that regard.

5.3 Non-compliance

If the Fatwa & Shari'a Supervisory Board rules that an investment or any other activity performed by National Bonds Corporation in its capacity as the Mudareb of the National Bonds Mudaraba has not been in compliance with the Shari'a or its policies, rules, guidelines, rulings or decisions, it can impose such sanctions as it deems appropriate, including directing that all profits from the applicable investment must be donated to charity. To the extent that such non-compliance is attributable to the gross negligence or wilful default of the Mudareb, the Mudareb must indemnify the National Bonds Mudaraba for any losses that it directly suffers from such non-compliance.

5.4 Annual Shari'a compliance report

At the end of each Financial Year, the Fatwa & Shari'a Supervisory Board shall submit to the Board of Directors of National Bonds Corporation a written report confirming that the activities of the Mudareb in relation to the National Bonds Mudaraba during that Financial Year have been in compliance with its policies, rules, guidelines and decisions. If there have been instances of non-compliance, the Fatwa & Shari'a Supervisory Board shall detail them and specify whether:

- (a) they are non-material; or
- (b) they are material and its decision as to what action should be taken (including the donation of any applicable profits to charity).

5.5 Shari'a Audit

The Mudareb shall establish an independent department for internal Shari'a audit which shall comprise of auditors and internal Shari'a auditors in numbers sufficient for them to deal with the volume of transactions.

5.6 Zakat

Each Bond Holder shall be responsible for making their own arrangements for the payment of *zakat* on their National Bonds.

INVESTMENT MATTERS

6 INVESTMENT OBJECTIVES AND POLICY

The policy of the National Bonds Mudaraba is to invest the Mudaraba Assets in a Shari'a compliant manner.

All investment policies and objectives together with the way in which they are to be performed and carried out will be subject to the approval of the Board of Directors of National Bonds Corporation and the Fatwa & Shari'a Supervisory Board.

There shall be an investment committee which shall meet at least every three months and which shall initially be chaired by Mr. Ziad Makkawi, a member of the Board of Directors.

National Bonds Corporation can change the investment objectives and policy provided that they shall always conform with the Islamic Shari'a and the Fatwa & Shari'a Supervisory Board approves any such change in policy and objectives.

Each Bond Holder agrees and accepts that the value of the Mudaraba Assets can and may vary (both upwards and downwards) depending on various factors including, without limitation:

- past, current and projected market conditions;
- the allocation of the Mudaraba Assets; and
- the time lag for the completion of projects in which the National Bonds Mudaraba invests or finances.

7 INVESTMENT OF THE MUDARABA ASSETS

The Mudareb is authorised and may invest any available funds of the National Bonds Mudaraba and may purchase, sell, transfer, exchange or alter any investment, as it deems appropriate, provided it is in compliance with Shari'a and the investment policies and objectives of the National Bonds Mudaraba.

The Mudareb will adopt from time to time an investment policy that will include the details of eligible asset classes, limits for possible risks by reference to the concentration of assets, geographical limits and criteria for choosing counter-parties. The Fatwa & Shari'a Supervisory Board must approve such investment policies. The Mudareb has the right and authority in its discretion from time to time to change the investment categories described below without the consent of the Bond Holders provided that it obtains the approval of the Fatwa & Shari'a Supervisory Board.

Subject to the above, the main investment objectives (which must always be Shari'a compliant) are to:

- (a) invest in or finance Shari'a compliant pre-identified projects (mainly infrastructure and development projects) in the UAE and elsewhere as determined by the Mudareb; and
- (b) invest in short-term Shari'a compliant financial products and instruments such as shares, sukuk, funds and portfolios in a manner that conforms with the Shari'a.

Allocation in projects

The intention is that sixty percent (60%) of the Mudaraba Assets is invested in Shari'a compliant pre-identified new projects.

Initially the Mudaraba Asset allocation will not be 60:40 as described above as it will take time to deploy the investment monies received from the Bond Holders in pre-identified Shari'a compliant new projects but the Mudareb expects to reach that level of deployment within two years of the Initial Issue Date.

It is also envisaged that initially the investments in Shari'a compliant projects will not be in pre-identified Shari'a compliant new projects as it will take time for the Mudareb to locate suitable Shari'a compliant investment projects and so, for the first two (2) years, it is likely that all or some of the 60% allocation will not be in new Shari'a compliant investment projects. However, with the approval of the Fatwa & Shari'a Supervisory Board, the 60% allocated for new projects may be invested in existing infrastructure and development projects on the basis that the Mudareb shall ensure that within two (2) years of the Initial Issue Date, the 60% allocation will, as far as possible, be in new Shari'a compliant pre-identified investment projects.

Allocation of balance of the Mudaraba Assets

With the prior approval of the Shari'a & Fatwa Supervisory Board, the balance of the Mudaraba Assets will be invested in Shari'a compliant products which could include all or some of the following:

- (a) acquisition of any Shari'a compliant share, security or similar instrument in any company, partnership, syndicate or other person;
- (b) deposits with any person (whether secured or unsecured) provided that such deposits are with institutions that operate in accordance with the Shari'a;
- (c) National Bonds or bonds, notes or similar obligations (whether secured or unsecured) that are in compliance with the Shari'a;
- (d) Shari'a compliant stocks, bonds or securities of, or deposits with, any government, public municipal or local body or authority in any part of the world;
- (e) investing money in, or making Islamic finance available to, National Bonds Corporation or a Government Person;
- (f) purchasing assets or selling some of the Mudaraba Assets or entering into other transactions on behalf of the National Bonds Mudaraba with any Government Person on an arm's length basis; and
- (g) any right to acquire any of the above.

These investments are to provide liquidity and also to provide a contribution to the profit return of the Bond Holders while funds are waiting to be deployed in the Shari'a compliant projects described above.

DISTRIBUTABLE PROFITS AND PAYMENT OF DISTRIBUTABLE PROFITS

8 DETERMINATION OF DISTRIBUTABLE PROFITS

8.1 Distributable Profits

Subject to Clause 43 of the Terms and Conditions, in any Financial Year, the profit entitlements of the Bond Holders and National Bonds Corporation in its capacity as the Mudareb shall be calculated by reference to the Distributable Profits for that Financial Year.

8.2 Unrealised capital gains

Unrealised capital gains in respect of the Mudaraba Assets shall not be distributed to the Bond Holders until such time as they are realised. Once realised they shall be included in the calculation of Distributable Profit for the Financial Year in which they are realised. The unrealised capital gains shall be held in such reserve as the Mudareb shall decide.

The Bond Holders recognise and agree that:

- (a) unrealised capital gains of the Mudaraba Assets will, for purposes of valuation of the National Bonds, have a zero value until such time as they are realised when they will be included in the calculation of Distributable Profit as described above; and
- (b) on a winding up of the National Bonds Mudaraba as described in Clause 30, the Final Incentive Fee may be payable to the Mudareb.

8.3 Expenses of the National Bonds Mudaraba

In calculating the Distributable Profit, the following expenses directly incurred in relation to the National Bonds Mudaraba shall be deducted after obtaining the approval of the Fatwa & Shari'a Supervisory Board:

- Asset management fees;
- Distribution fees;
- Marketing expenses;
- Staff costs;
- Administrative expenses;
- Depreciation and amortization;
- General operating expenses; and
- Any other expenses attributable to the National Bonds Mudaraba.

8.4 Audit

At the end of each Financial Year, the Auditor shall:

- (a) verify the calculation of the Distributable Profit and the reserve for unrealised capital gains for the Financial Year; and
- (b) audit the financial statements of the National Bonds Mudaraba.

8.5 Profit split

Subject to Clause 43 of the Terms and Conditions, Distributable Profits will be split in the ratio of 80:20 in favour of National Bonds Corporation and the Bond Holders, respectively.

9 REQUIREMENTS FOR BOND HOLDERS TO CLAIM PROFIT ENTITLEMENT

A National Bond will be entitled to profit entitlement if the Bond Holder owns that National Bond for any part of a Financial Year. If the National Bond is redeemed during a Financial Year, the profit entitlement will reflect that part of the Financial Year for which it was held. The profit entitlement and its payment will only be made at the end of the relevant Financial Year as provided in Clause 11 (and with any adjustment as provided in Clause 11.4) and not when the relevant National Bonds are redeemed, if redemption occurs part way through a Financial Year.

Any profit entitlement that is paid as described above but after when a person has redeemed the applicable National Bonds, shall be credited to that person's Bond Holder Profit Account.

10 "ON ACCOUNT" PROFIT PAYMENTS

10.1 Monthly calculations of profits for the purpose of "on account" payments to National Bonds Corporation, in its capacity as the investment manager (*Mudareb*)

On or around the first Business Day of each calendar month in each Financial Year, the Mudareb shall calculate:

- the Distributable Profit of the National Bonds Mudaraba for the immediately preceding calendar month; and
- the profit entitlement of National Bonds Corporation for that calendar month.

10.2 Payments on account to National Bonds Corporation

The Bond Holders agree that National Bonds Corporation may credit the Reserve Fund Account with such amounts of its profit entitlement described in Clause 10.1.

Such payments shall be made from the cash balances accruing from the operations conducted by the National Bonds Mudaraba. National Bonds Corporation shall not make such payments to the Reserve Fund Account if this would cause or be likely to cause the National Bonds Mudaraba to be unable to pay its debts and other obligations as and when they fall due.

10.3 Reconciliation Calculations

At the end of each Financial Year, the Auditor shall reconcile the amounts paid on account to National Bonds Corporation to the Reserve Fund Account against National Bonds Corporation's actual profit entitlement.

10.4 Reconciliation Payments

If based on the audited financial statements of the National Bonds Mudaraba, after taking into account the "on account" profit payments to National Bonds Corporation, there is still a balance due to National Bonds Corporation of its profit entitlement, then the balance shall be promptly paid to National Bonds Corporation as described in Clause 11.4 (b).

If the effect of the "on account" profit payments means that National Bonds Corporation has been over-paid, then the excess shall be promptly paid by National Bonds Corporation to the National Bonds Mudaraba.

10.5 The Reserve Fund Account

The amounts standing to the credit of the Reserve Fund Account shall be primarily invested in short-term liquid investments that are Shari'a compliant and low risk.

11 CALCULATION AND PAYMENT OF PROFIT ENTITLEMENT

11.1 When entitlement is calculated

On or around the first Business Day after the end of each Financial Year, the Mudareb shall calculate the profit entitlement of the Bond Holders and National Bond Corporation based on the management accounts prepared by the Mudareb.

11.2 Crediting of profit entitlements

Upon the calculation described in Clause 11.1 having been performed, the Mudareb shall promptly:

- (a) credit each Bond Holder Profit Account with the relevant profit entitlement; and
- (b) pay to National Bonds Corporation its profit entitlement less the amounts paid "on account" as provided in Clause 10.

11.3 Issue of additional National Bonds

If the amount standing to the credit of a Bond Holder Profit Account reaches AED 100 (or such other amount as the Mudareb shall from time to time determine and notify the Bond Holders), the Bond Holder shall be issued with additional National Bonds. The Mudareb shall determine the number by dividing the amount standing to the credit of the Bond Holder Profit Account by ten (10). No fractional National Bonds shall be issued and any profit entitlement balance shall remain in the Bond Holder Profit Account.

No Application shall be required to be submitted by the Bond Holder for these additional National Bonds.

The Mudareb shall issue the additional National Bonds as soon as practicable.

Additional National Bonds shall also be issued to persons who have ceased to be Bond Holders but to whom profit entitlements are subsequently paid as described in Clauses 9 and 11.5 and where the credit to their Bond Holder Profit Account exceeds AED 100.

11.4 Reconciliation when the audited financial statements are issued

If upon the audited financial statements of the National Bonds Mudaraba for that Financial Year being approved by the Board of Directors of National Bonds Corporation, the profit entitlement payment made in accordance with Clause 11.2:

- (a) is more than the amount that should have been paid based on the audited financial statements, the Mudareb shall, from its own funds, pay to the National Bonds Mudaraba the overpayment made to the Bond Holders on the basis that it was its responsibility as the Mudareb to ensure that the calculations were correct; or
- (b) is less than the amount that should have been paid based on the audited financial statements, appropriate amounts shall be promptly:
 - (i) credited to the Bond Holder Profit Account of each Bond Holder to whom the original payments were made; and
 - (ii) paid to National Bonds Corporation (but after taking into account the "on account" payments described in Clause 10).

11.5 Persons ceasing to be Bond Holders

If a person to whom a profit entitlement was allocated in accordance with Clause 11.1, shall cease to be a Bond Holder prior to the reconciliation exercise described in Clause 11.4, any additional reconciliation payment due to that person shall be paid to that person's Bond Holder Profit Account. If the amount in that person's Bond Holder's Profit Account reaches AED 100, the person shall be issued with additional National Bonds as provided in Clause 11.3.

To the extent that any moneys remain in a Bond Holder Profit Account of a person that has ceased to be a Bond Holder, the Mudareb is authorised to invest that money and to pay any profits made on such money to such charitable organisation as it may decide until such time as the person who was a Bond Holder requests the payment to him of those funds.

PRIZES

12 PRIZE PAYOUTS

The Mudareb may, in its sole and absolute discretion, hold frequent Prize Draws in which, from time to time, it will distribute, in its sole and absolute discretion, a variety of prizes by way of Prize Draws amongst the Bond Holders from those amounts in the Reserve Fund Account in accordance with the Terms and Conditions.

National Bonds Corporation is not obliged to use nor guarantees that it will use, all or any part of the Mudareb's profit entitlements (including any amounts standing to the credit from time to time in the Reserve Fund Account) for the purpose of prizes.

Prizes shall not be paid from the profit entitlement of the Bond Holders.

The Fatwa & Shari'a Supervisory Board has confirmed that such a scheme is in accordance with Shari'a since it is not stipulated in any manner whatsoever in the Terms and Conditions that the Mudareb is obliged to distribute prizes and that any Prize Draws are to be in the sole and absolute discretion of National Bonds Corporation.

If any amounts in the Reserve Fund Account are not paid out in prizes, such amounts can be retained in the Reserve Fund Account for any future draws that National Bonds Corporation, in its sole and absolute discretion, may decide to hold. National Bonds Corporation has the right not to utilise all amounts standing to the credit of the Reserve Fund Account for Prize Draws on any particular date but instead to retain such amounts for future Prize Draws or to use such funds for its own purposes.

On the winding up of the National Bonds Mudaraba, any unutilised amounts in the Reserve Fund Account shall be paid to National Bonds Corporation.

13 PRIZE DRAWS

Each Bond Holder, although acknowledging that they are eligible for prize draws, agrees that he has no guarantee of receiving any Prize Draw and that Prize Draw distributions are made to Bond Holders on a random basis, if and when they are held.

A National Bond becomes eligible for Prize Draws immediately upon the Application for the applicable National Bonds being accepted and the National Bond being issued to the Bond Holder.

A National Bond is eligible for every Prize Draw up to, and including, the day before it is redeemed.

National Bonds Corporation has the right to vary the frequency of the Prize Draws.

National Bonds Corporation shall, in its sole and absolute discretion, determine:

- (a) the amount of its "on-account" profit entitlement that is to be credited to the Reserve Fund Account;
- (b) the amount in the Reserve Fund Account that shall constitute the prize pool for any Prize Draw;
- (c) the amount in the Reserve Fund Account that is to be retained; and
- (d) the eligibility requirements.

Each National Bond shall be allocated a unique serial number. National Bonds Corporation shall divide the prize pool into prizes. Winners of prizes shall be chosen by reference to the serial numbers through a random selection procedure chosen by National Bonds Corporation and which, from time to time, National Bonds Corporation may change. The selection procedure shall be undertaken on the basis that the winners are chosen at random in that each serial number has an equal chance of winning.

The selection of eligible National Bonds shall be by serial number, and the Bond Holder of the National Bond bearing the serial number of the National Bond first selected will collect the first prize with subsequent selected serial numbers carrying an entitlement to prizes of

successively smaller amounts. National Bonds Corporation has the right to change the selection system from time to time.

National Bonds Corporation has the sole and absolute right from time to time to change the number of prizes, the amounts of the prizes to be paid and the frequency of the Prize Draws.

14 NOTIFICATION AND PAYMENT OF PRIZES

All prizes will be in the form of additional National Bonds. Each Bond Holder agrees that the issue of such National Bonds shall be a full and final settlement and discharge of the Bond Holder's right to be paid the prize.

National Bonds Corporation shall promptly announce the results of each Prize Draw through such channels as it may decide.

National Bonds Corporation shall notify each prize winner by writing to them at their address appearing in the Register. Such notification shall include:

- (a) a new certificate or certificates for the National Bonds that have been won as prizes; and
- (b) a Redemption Form in case the winner wishes to immediately redeem those National Bonds.

Neither the Registrar nor National Bonds Corporation shall be liable for any loss, cost or expense suffered or incurred by a Bond Holder if, for any reason, such notification is not accurate, is not delivered or is misdirected (including because of an error as to the address in the Register).

ACCOUNTING MATTERS

15 FINANCIAL YEAR

The Financial Year of the National Bonds Mudaraba shall be from 1 January to 31 December unless National Bonds Corporation, in its discretion, changes it. The first Financial Year shall begin on the Initial Issue Date and end on 31 December 2007 and the final Financial Year shall end on the date of the winding up of the National Bonds Mudaraba.

16 SEPARATE ACCOUNTS

National Bonds Corporation must keep or cause to be kept in accordance with the accounting standards of Islamic financial institutions, true and accurate segregated accounts of money received and expended by or on behalf of the National Bonds Mudaraba, of the issue and redemption of National Bonds, and of all other financial matters that relate to the operations and activities of the National Bonds Mudaraba.

National Bonds Corporation must prepare annual accounts in respect of the National Bonds Mudaraba for each Financial Year.

The annual financial statements are to be audited by:

- (a) the Auditor; and
- (b) the Shari'a audit and supervision department of the National Bonds Mudaraba which will report its findings to the Fatwa & Shari'a Supervisory Board and to the Auditor.

The Auditor is to report to National Bonds Corporation:

- That the financial statements present fairly, in all material respects, the financial position of the National Bonds Mudaraba as of the end of the applicable Financial Year, and the results of its operations and its cash flows for that year are in accordance with IFRS.
- That proper accounting records have been kept by National Bonds Corporation in relation to the National Bonds Mudaraba and the financial statements and the contents of the report of the Board of Directors relating to these financial statements, are in agreement therewith.
- That no other violations of any applicable laws nor of the constituent documents of National Bonds Corporation have occurred during the applicable Financial Year that might have had a material adverse effect on the business of National Bonds Corporation or the National Bonds Mudaraba or on its financial position.
- That all the information and explanations were obtained which were required for the purpose of the audit.

National Bonds Corporation shall publish financial statements on a quarterly basis as may be required under the Central Bank Regulations (or such other period as mandated from time to time by the Central Bank).

There shall be no publication of the net asset value of the Mudaraba Assets on the basis that, due to the arrangements relating to the National Bonds Mudaraba, the value of each National Bond is not to be more than or less than AED10.

17 AUDITOR

National Bonds Corporation shall appoint the Auditor of the National Bonds Mudaraba.

The professional fees of the Auditor shall be fixed by National Bonds Corporation and are chargeable as an expense of the National Bonds Mudaraba.

The Auditor shall be a chartered accountant or a firm of chartered accountants duly licensed in accordance with the provisions of Federal Law No. 9 of 1975 (or any other enactment or amendment replacing or amending the same).

The Auditor may not be an officer or employee (or partner of an officer or employee) of National Bonds Corporation.

The Auditor may not be the auditor of National Bonds Corporation but may be the auditor of any other trust, fund or *mudaraba*.

The Auditor may resign his appointment by giving National Bonds Corporation 90 days' written notice, or may be removed from office by National Bonds Corporation at any time.

ISSUE AND PURCHASE OF NATIONAL BONDS

18 ISSUE AND PURCHASE OF NATIONAL BONDS

18.1 Application for National Bonds

Applications for National Bonds may be made upon and subject to this prospectus (including these Terms and Conditions) and otherwise in such manner and upon such terms and conditions as the Mudareb determines to be acceptable.

18.2 General provisions as to how to buy

The Mudareb may permit a potential investor to submit an Application through all or some of the following methods:

- (a) in person at any Approved Outlet;
- (b) by post to National Bonds Corporation;
- (c) through kiosks operated by National Bonds Corporation;
- (d) by internet;
- (e) by telephone; or
- (f) such other method as the Mudareb determines and notifies the Bond Holders or prospective Bond Holders.

18.3 General authority to extend or limit application methods

The Mudareb may from time to time:

- (a) determine the places where National Bonds are to be issued;
- (b) amend or restrict, whether temporarily or permanently, those application procedures described in Clause 18.2,

and shall notify the Bond Holders or prospective Bond Holders accordingly.

18.4 Application procedures

- (a) In order to purchase a National Bond, an applicant shall complete and submit an Application to the Mudareb. In addition, the applicant shall deliver to the Mudareb such documents and other information in writing as it may require.
- (b) Without limiting the provisions described in sub clause (a) above, the following conditions apply to Applications:
 - (i) *Internet:* If the applicant applies via the internet or by telephone and this is the applicant's first purchase of National Bonds, the applicant shall confirm his/her Application by signing and returning a confirmation form that the Mudareb will send to the applicant by post;
 - (ii) *Timeframe:* The Mudareb reserves the right to specify the time within which the signed Application and/or evidence of identity, address or source of funds must be returned to it. If the Mudareb does not receive the Application and/or such evidence within the specified time, the Application shall not be accepted.
 - (iii) *Subject to acceptance:* In all cases, an Application to purchase is subject to acceptance by the Mudareb. The Mudareb may, in its absolute discretion, accept or refuse to accept in whole or in part an Application. The Mudareb is not required to give any reason or grounds for such refusal. An Application made through an Authorised Outlet may only be accepted or refused by the Mudareb and not by that Authorised Outlet.
 - (iv) *Cleared funds:* For the avoidance of doubt, acceptance of any Application shall be dependent on cleared funds being actually received by the Mudareb and, in the case of an applicant using a debit card/direct debit/standing order, on the required debit being confirmed to have been made and accepted by the debit card provider/bank which is handling the direct debit/standing order

instructions. Payments in cleared funds will not itself constitute acceptance of an Application.

18.5 Authority of the Mudareb to request additional information

In order to comply with any applicable laws and regulations (including, without limitation, any anti-money laundering regulations) the Mudareb may:

- (a) when an Application is submitted; or
- (b) at any time after an Application has been accepted,

require that an applicant or a Bond Holder, as applicable, provides to it details and evidence of, as applicable:

- The identity of the applicant or the Bond Holder (or any person for whom he holds or purports to hold, all or part of the title to any National Bond which is registered in his name);
- The identity of the source of funds that are intended to purchase or were used to purchase any National Bond;
- Details of such person's address;
- Any other information that the Mudareb is required by law to obtain from an applicant or a Bond Holder.

If the applicant or the Bond Holder does not comply with such notice to the satisfaction of the Mudareb, the Mudareb has the right to:

- (a) reject the Application; or
- (b) in the case of issued National Bonds, mandatorily redeem the applicable National Bonds in accordance with Clause 35.

18.6 Applications that are accepted

If an Application is accepted, the date of purchase shall be the date when cleared funds have been received by the Mudareb as described in Clause 18.4 (b) (iv).

18.7 Allotment source

Applications for National Bonds which are accepted by the Mudareb may, in the discretion of the Mudareb, be treated as:

- (a) a subscription for new National Bonds to be issued in relation to the National Bonds Mudaraba; or
- (b) a request for the purchase from National Bonds Corporation of National Bonds owned by National Bonds Corporation and, if the Mudareb wishes, with the certificates of such issued National Bonds being cancelled and with new certificates being issued to the relevant applicant for National Bonds.

Regardless of the alternative adopted by the Mudareb, the price payable by the applicant will always be AED10.

18.8 Minimum application

An Application must be for at least ten (10) National Bonds.

18.9 Delivery, form and execution of the National Bonds

If an application is accepted, the Mudareb intends that, during the currency of this prospectus, (absent unusual circumstances), within one month after the acceptance of an Application, the Mudareb will issue or cause to be issued the relevant National Bonds to the applicant. The National Bonds shall, amongst other matters, show the date of purchase.

The certificate used for a National Bond shall be in such form and content as the Mudareb shall from time to time decide.

Each National Bond is to be executed by or on behalf of the Mudareb (or by some person authorised by the Mudareb) in original form, or by electronic or mechanical means.

The Mudareb may stop issuing National Bonds in physical form and instead send statements of account to Bond Holders on such regular basis as the Mudareb may decide from time to time. In these circumstances the Mudareb shall have the right from time to time to appoint and remove a custodian, and to agree the scope of its responsibilities and its remuneration.

18.10 Number of National Bonds allotted

The number of National Bonds sold or issued to an applicant shall be calculated by dividing the amount paid by the applicant by ten (10).

18.11 Prize National Bonds

No Application is required to be submitted for the National Bonds that are to be issued against payment made from the Reserve Fund Account in respect of prizes.

18.12 Delivery of National Bonds

If an Application is accepted, the National Bonds shall be mailed to the address appearing in the Application. The Mudareb shall not have any further responsibility or liability once the National Bonds are placed in the post, properly stamped and addressed. The Mudareb may, from time to time, use different methods of delivering the National Bonds.

19 MINIMUM PURCHASE AMOUNTS

The minimum amount for each purchase of National Bonds is AED 100 (being ten (10) National Bonds) or such other amount as the Mudareb may determine from time to time.

20 MAXIMUM HOLDING OF NATIONAL BONDS

20.1 Maximum holding

The Mudareb may determine limits on the holdings of National Bonds by persons whether by reference to individual persons or by classes of persons. At the date of this prospectus there are no limits. The Mudareb may from time to time provide notice of such revised limits.

The Mudareb has the authority to require additional proof of identity/source of funds for large applications and, as at the date of this prospectus, applications of/or above AED 40,000 shall be considered as large applications.

21 PERSONS ENTITLED TO PURCHASE AND HOLD NATIONAL BONDS

21.1 Who can purchase

A National Bond may be purchased and held by any of the following persons in their sole name:

- (a) any adult who is not under any legal disability. For this purpose an adult shall be a person who has reached the age of 16 years;
- (b) companies, corporations, partnerships, limited liability companies and other corporate bodies that the Mudareb may permit from time to time;
- (c) Receivers;
- (d) Guardians;
- (e) Trustees;
- (f) any other body of persons which the Mudareb may, in its discretion, approve from time to time, either generally or with respect to any particular purchase;
- (g) National Bonds Corporation on its own account, whether or not in its capacity as the Mudareb.

21.2 On behalf of certain persons

Subject to these Terms and Conditions, a National Bond may be purchased:

- (a) on behalf of and in the name of a person described in Clause 21.1 by any other person;
- (b) on behalf of and in the name of a Minor by a parent or Guardian; and
- (c) on behalf of and in the name of a Mentally Disordered Person by his Receiver.

Any National Bond so purchased shall be deemed to be held by the person on whose behalf it is purchased although, in relation to sub paragraphs (b) and (c), National Bonds Corporation shall only take instructions from the parent, Guardian or Receiver, as applicable.

21.3 Trustee arrangements

Subject to these Terms and Conditions, a National Bond may be either:

- (a) purchased and held by a Trustee or by two or more Trustees jointly; or
- (b) purchased by a person or persons acting as Trustee on behalf of a Minor; or
- (c) in the joint names of (i) the Trustee or Trustees and (ii) the beneficiary or beneficiaries, in which case they shall hold the National Bond jointly.

Where a National Bond is purchased and held by a trustee or trustees under sub-paragraph (a) of this Clause 21.3, he or they may be described in the records kept by National Bonds Corporation as trustee or trustees of a specified trust or as a trustee or trustees without specifying a trust. Notwithstanding the above, the Mudareb shall only take instructions from the Trustee or Trustees and not the beneficiaries in relation to all matters regarding the applicable National Bonds unless a valid court order recognised in the UAE is provided to it and which, based on legal advice, it finds to provide satisfactory evidence for it to so act.

Except as expressly provided in this Clause, the Mudareb shall be deemed to have no notice of any other form of trust or similar arrangement or agreement.

21.4 Joint applications

Other than as described in Clause 21.3 or unless expressly permitted by the Mudareb, Applications will not be accepted from joint applicants.

To the extent that joint applications are permitted, the first named of such joint applicants shall be entered first in the Register and the Mudareb shall be fully entitled and is, in relation to each such joint application, authorised by each of the joint applicants, to act solely upon the instructions of the first named person, including acting upon requests to redeem all or part of the National Bonds held by such joint Bond Holders.

21.5 Children reaching maturity

Where a National Bond has been purchased on behalf of a Minor at the date of the purchase, the Mudareb may, at any time after that person has become an adult (and has produced evidence to the satisfaction of the Mudareb to this effect), require a specimen of his or her signature. As from the date of being supplied such evidence and specimen signature, the Register shall be amended to show that the person who was previously a Minor is now the Bond Holder. To the extent required, the Mudareb may require that the applicable National Bonds be returned to it for cancellation and replacement with new National Bonds.

22 REGISTER

- (a) The Registrar shall maintain the Register.
- (b) The Register shall be kept at the head office of National Bonds Corporation or such other location as National Bonds Corporation shall from time to time determine.
- (c) Absent manifest error, the details contained in the Register shall be conclusive evidence as to the ownership of any National Bond and the number of National Bonds held by any person, and all other entitlements relating to their holding of National Bonds.
- (d) The Register shall record the following details:
 - (i) the name and address (including address of home country/domicile) of each Bond Holder or, in the case of joint Bond Holders, the address of the first person of such joint Bond Holders named as holder in the Register, including details of their home country/domicile;
 - (ii) the number of National Bonds held by each Bond Holder;
 - (iii) the date on which the name of each person was entered in the Register as a Bond Holder;
 - (iv) the date when each Bond Holder acquired his National Bonds;
 - (v) any redemptions of National Bonds made by the Bond Holder;

- (vi) the date when any person ceased to be a Bond Holder.
- (e) The Registrar is not required to register the names of more than two persons in respect of National Bonds that are held in joint names.
- (f) The Register is to be audited by the Auditor at least once every Financial Year or more often if the Auditor so requires.
- (g) A Bond Holder shall inform the Mudareb in writing of any change of name or address. Upon receipt of this information, the Mudareb shall alter the Register accordingly.
- (h) A Bond Holder may inspect the Register in respect of National Bonds registered in the name of that Bond Holder during normal working hours on payment of a reasonable fee to be determined by National Bonds Corporation from time to time.

National Bonds Corporation may close the Register as it thinks fit provided that it does not remain closed for more than 30 Business Days in each calendar year.

REDEMPTION OF NATIONAL BONDS

23 REDEMPTION PROCESS AND REDEMPTION FORMS

23.1 Thirty day holding period

Other than a National Bond which has been awarded in a Prize Draw or a National Bond which is issued as part of profit entitlement, a National Bond may not be redeemed until it has been held for thirty (30) days from the date when it was issued.

23.2 Minimum Redemption Amount

A Redemption Form shall be for at least ten (10) National Bonds.

23.3 General

A Redemption Form may be submitted to:

- (a) National Bonds Corporation; or
- (b) any Authorised Outlet; or
- (c) any kiosk operated by National Bonds Corporation; or
- (d) such other person or in such other manner as the Mudareb may, from time to time determine and notify the Bond Holders.

23.4 Details in the Redemption Form

The Redemption Form shall specify the number of the National Bonds (including their serial numbers) that the Bond Holder wishes to redeem.

The Redemption Form must be accompanied by the relevant National Bonds where issued in physical form.

23.5 Redemption or purchase

National Bonds Corporation has entered into a Declaration of a Promise to Purchase in which it has promised to purchase for the applicable Redemption Amount:

- (a) National Bonds which are the subject of a Redemption Form (provided the requested redemption is made in accordance with the Terms and Conditions); and
- (b) All issued National Bonds on the occurrence of either of:
 - (i) the winding up of the National Bonds Mudaraba in accordance with Clause 30.2 of the Terms and Conditions; or
 - (ii) a final and non-appealable judgment being issued against the Mudareb in accordance with Clause 42 of the Terms and Conditions.

23.6 Minimum amounts for redemption

A Redemption Form shall be for a minimum of ten (10) National Bonds or such other minimum amount that the Mudareb shall specify from time to time and notify the Bond Holders.

23.7 Forced redemption

If the number of National Bonds held by a Bond Holder falls below ten (10), the Mudareb may mandatorily redeem those National Bonds but is not obliged to exercise this power.

23.8 Determination of the Redemption Amount

In respect of each Redemption Form and on the occurrence of any event described in Clause 23.5(b) above, the Mudareb shall calculate the applicable Redemption Amount.

24 PAYMENT METHODS ON REDEMPTION

24.1 Payment of Redemption Amounts

- (a) Subject to sub clause (b), all Redemption Amounts shall be paid by cheque.
- (b) From time to time the Mudareb may:
 - (i) amend the Redemption Form to permit Bond Holders to elect to have Redemption Amounts paid by electronic transfer; and
 - (ii) provide for other payment methods whether generally or in respect of a specific redemption request.

24.2 Redemption payment by cheque

If payment is made by cheque, the date of the cheque shall be the date when a National Bond is taken to have been redeemed or purchased by National Bonds Corporation. Unless express arrangements are made with the Mudareb and the Registrar, a cheque shall be mailed to the Bond Holder at the address shown in the Register at the time of posting. Neither the Mudareb nor the Registrar is to have any further responsibility or liability once the cheque is placed in the post, properly stamped and addressed.

24.3 Electronic transfer of Redemption Amounts

Subject to Clause 24.1, if the payment of a Redemption Amount is made by electronic transfer:

- (a) it will be made by direct credit to a bank account of the Bond Holder specified in the Redemption Form; and

- (b) the date a National Bond is redeemed shall be the date when, in the normal course, the payment would be credited to the nominated account following initiation of the electronic transfer by the Mudareb.

In respect of payments made by electronic transfer, the Mudareb may charge a Redemption Fee (to be approved by the Fatwa & Shari'a Supervisory Board) which will be deducted from the Redemption Amount.

If the Mudareb makes an electronic transfer properly, it shall not be liable for:

- (a) any failure or delay of the receiving bank in crediting the nominated account; or
- (b) any failure or delay in any part of the electronic transfer process which is beyond its direct control,

including any failure which occurs because the specified account is incapable of receiving the electronic transfer.

25 REDEMPTION REQUESTS FROM PARTICULAR CATEGORIES OF PERSONS

25.1 Children and Mentally Disordered Persons

- (a) Subject to the provisions of these Terms and Conditions, no redemption payment shall be made in respect of a National Bond held by a Minor. However, the Mudareb may, if it thinks fit, pay the whole or any part of the amount payable in respect of a National Bond to any person who provides satisfactory evidence that he is the legal representative of such person.
- (b) The Receiver of a Mentally Disordered Person shall be the person entitled to complete and submit a Redemption Form for National Bonds held by or on behalf of such a Mentally Disordered Person. Where it is shown to the satisfaction of the Mudareb that any person holding, or having an interest in, a National Bond is a Mentally Disordered Person for whose estate no Receiver has been appointed, the Mudareb may, if it thinks fit, pay the whole or any part of the amount payable in respect of the National Bond to any person who provides satisfactory evidence that the payment will be used for the maintenance or otherwise for the benefit of the Mentally Disordered Person.

25.2 Redemption applications from joint applicants

If a National Bond is in the names of two or more persons as joint holders, the Mudareb can accept a Redemption Form duly signed by the person whose name first appears in the Register or, if that person has died, by the next named joint Bond Holder.

In addition, the joint holders of a National Bond may authorise any person, including one of themselves, to act as their agent for the purpose of receiving on their behalf any amount payable in respect of the redemption of a National Bond.

25.3 Redemption applications from bankrupts

If the Mudareb is satisfied that:

- (a) any person who is the sole holder of a National Bond is bankrupt; or
- (b) an administrator has been appointed in the bankruptcy of any such person; or
- (c) an order for the administration in bankruptcy of the estate of a deceased sole holder has been made,

the Mudareb may, if it thinks fit, pay the Redemption Amount due in respect of the applicable National Bonds if it receives:

- (i) a duly completed Redemption Form; and
- (ii) such evidence as is satisfactory to it of the legal right of the person who has submitted the Redemption Form to do so on behalf of the Bond Holder in the circumstances described in (a), (b) or (c) above.

25.4 Additional evidence of identity etc as part of the redemption process

Before making any payment pursuant to a Redemption Form, the Mudareb has the right to ask for evidence satisfactory to it that the person to whom it proposes to make a payment, is the person legally entitled to receive such payment and that making such payment will not violate any law or regulation.

TRANSFER OF NATIONAL BONDS

26 GENERAL PROHIBITION ON TRANSFERS

26.1 No transfer of National Bonds

The Bond Holders agree that, other than as provided in Clauses 26.2, 26.3 and 26.4 below, National Bonds cannot be transferred or negotiated. In addition, in these limited exceptions, the Mudareb has the right to require the original National Bonds to be cancelled and replaced by new National Bonds instead of effecting a transfer. The Mudareb, however, undertakes to redeem National Bonds in accordance with the Terms and Conditions.

26.2 Death of a Bond Holder

The restrictions contained in Clause 26.1 do not apply if the Bond Holder dies when a transfer of a National Bond to the deceased's estate is permitted as described in Clause 28.

26.3 Transfers on a Minor becoming an adult

To the extent that a transfer is required when a Minor becomes an adult, such a transfer is permitted upon the Mudareb being satisfied that the requirements set out in these Terms and Conditions have been complied with.

26.4 Transfers by and to National Bonds Corporation

- (a) If the discretion is exercised under Clause 18.7(b), National Bonds held by National Bonds Corporation can be transferred to the applicant against payment to and receipt by National Bonds Corporation in its independent capacity of the applicable payment amount;
- (b) If National Bonds Corporation purchases National Bonds under the Declaration of a Promise to Purchase, the National Bonds which are purchased shall be transferred to National Bonds Corporation.

ENCUMBERING OF NATIONAL BONDS

27 ENCUMBERING OF NATIONAL BONDS

A Bond Holder may pledge, mortgage or otherwise encumber (collectively an **encumbrance**) all or a part of his holding of National Bonds provided that it shall not be possible for a Bond Holder to grant an encumbrance over his eligibility to receive a prize or over an actual prize.

In all circumstances National Bonds Corporation shall only pay a prize to the relevant Bond Holder.

Notification of the grant of any encumbrance shall be provided in writing to the Registrar and the Registrar and the Mudareb shall be entitled to ask for any additional information and documentation (including a legal opinion) that it may require before taking any action to record such encumbrance. If the Mudareb or the Registrar is requested to execute a form of acknowledgment and/or consent, it may refuse to do so unless that acknowledgement and/or consent is in a form and substance satisfactory to it and it is re-imbursed any costs or expenses (including legal fees) that it may incur in taking this action.

Once the encumbrance has been recorded in the Register then the Mudareb shall only:

- (a) pay the applicable profit entitlement; and
- (b) act upon redemption requests,

in accordance with the instructions of the pledgee, mortgagee or other encumbrance holder until such time as notified otherwise by such person or by a court order.

PAYMENT IN CASE OF DEATH

28 PAYMENT AGAINST SATISFACTORY EVIDENCE

28.1 Evidence of authority

If a Bond Holder (or joint holder) dies, the Mudareb shall be under no obligation to act upon the instructions of any person or to make any payments due under a National Bond to any person until legal documentation has been produced to it evidencing the authority of a person or persons to act in relation to the estate of the deceased. Such authority must extend to the applicable National Bonds. When it has received evidence satisfactory to it, this shall be sufficient authority for the Mudareb to pay any amount payable in respect of the affected National Bonds, or to transfer the National Bonds, to the person to whom the grant of authority was made, or as directed by that person, or to take instructions from that person relating to the affected National Bonds.

28.2 No liability

If the Mudareb has acted in good faith and not negligently in seeking evidence of authority as described in Clause 28.1 above, any payment or transfer shall be deemed to have been validly made notwithstanding the invalidity of, or any defect in, the authority of the person claiming to act on behalf of the deceased person.

28.3 Law applicable on Bond Holder's death

In determining the domicile of any person who has died and the person or persons to whom payments in relation to National Bonds should be made or instructions taken, the Mudareb shall apply the provisions of the laws of the UAE. In reaching such determination, the Mudareb shall be entitled to rely on the information contained in the Register as to the residence and domicile of a Bond Holder at the date of his death. Any payment which is made on this basis will be regarded, for the purpose of these Terms and Conditions, to have been properly made.

28.4 Death of a Bond Holder once a Redemption Form has been submitted

The death of the person who submitted a Redemption Form shall not of itself terminate the instructions contained in the Redemption Form unless prior to the issue of the redemption cheque or the issue of instructions to make an electronic transfer of funds, the Mudareb has received written confirmation that the person has died.

If before such receiving such written confirmation a cheque has been dispatched, the Mudareb shall take reasonable steps to stop payment of the cheque but shall not be responsible if, having acted reasonably in the discharge of this obligation, payment is not stopped. If the written confirmation is received after an electronic transfer has been initiated, the Mudareb shall not be required to take any further action.

MATTERS RELATING TO HOLDERS OF NATIONAL BONDS

29 BOND HOLDER LIABILITY

If the Mudareb becomes liable for any taxes payable by a Bond Holder in respect of his holding, redemption or disposal of any National Bond (including, without limitation, withholding taxes, income or capital gains taxes) then that Bond Holder shall indemnify the Mudareb for such liability, but only up to the face value of the relevant National Bonds.

DURATION OF THE NATIONAL BONDS MUDARABA

30 TERM AND WINDING UP

30.1 Term

The term of the National Bonds will be five (5) years as from the Initial Issue Date.

However:

- (a) National Bonds Corporation may automatically renew the term upon notice to the Bond Holders for one or more periods of five years as it shall from time to time decide provided that any renewal shall be without prejudice to the right of the Bond Holders to redeem their National Bonds as provided in the Terms and Conditions;
- (b) the term can be ended early if National Bonds Corporation certifies in writing that, in its opinion, it is in the interests of the Bond Holders that National Bonds Corporation and/or the National Bonds Mudaraba should be wound up,

and with the Bond Holders being so notified in writing. In the case of an extension of the term, the notice shall contain details, as far as reasonably possible, about Shari'a compliant specific projects in which the Mudaraba Assets are already invested and in which they will be invested.

Notwithstanding the above, as provided in Clause 41 of the Terms and Conditions, if Bond Holders as of the relevant record date who own 25% or more of the aggregate face value of the issued National Bonds notify the Mudareb that they object to the proposed term extension, the proposed term extension shall not be effective.

30.2 Winding up

If the term of the National Bonds Mudaraba is not automatically renewed or if the term is ended early as described in Clause 30.1 (b), National Bonds Corporation shall promptly give each Bond Holder notice that the National Bonds Mudaraba is to be wound up.

The issue of such a notice shall result in the exercise by National Bonds Corporation (acting in a capacity totally independent from its capacity as the Mudareb) of its rights under each Bond Holder Sale Undertaking to purchase all of the Bond Holder's outstanding National Bonds for the applicable Redemption Amount.

As soon as practicable, National Bonds Corporation shall acquire the National Bonds held by all of the Bond Holders for the applicable Redemption Amounts pursuant to each Bond Holder Sale Undertaking.

As part of the winding up procedure, the Mudareb shall pay out, discharge or otherwise make proper provision from the Mudaraba Assets for the liabilities of the National Bonds Mudaraba and any contingent liabilities of the Mudareb or of the National Bonds Mudaraba.

When the National Bonds Mudaraba ends, a Final Incentive Fee may be paid to the Mudareb out of the Mudaraba Assets. The payment of the Final Incentive Fee shall be conditional upon each Bond Holder existing on the date that the National Bonds Mudaraba is to be ended having received a 3% p.a. cumulative return taking into account the period that they have held the National Bonds. To the extent that the return is less than 3% p.a., they must be paid an amount from any capital gains arising on the termination of the National Bonds Mudaraba so that their cumulative return is 3% p.a. (to the extent that there are sufficient Mudaraba Assets to make such additional payment).

For the avoidance of doubt, there is no guarantee that a 3% p.a. return will be achieved for the Bond Holders and, furthermore, the payment of any additional amount to the Bond Holders as mentioned above, is always subject to there being sufficient Mudaraba Assets available.

Once all Bond Holders existing on the date that the National Bonds Mudaraba is to be ended have achieved such cumulative return of 3% p.a., then the balance of the Mudaraba Assets (if any) will be paid to the Mudareb as the Final Incentive Fee.

PERSONS UNDER DISABILITY; PERSONS UNABLE TO WRITE

31 PERSONS UNDER DISABILITY

If any person holding, or having an interest in, any National Bond is a Mentally Disordered Person or is under legal disability for any other reason except his age alone, anything which under these Terms and Conditions is required or authorised to be done by or to the holder of the National Bond, shall or may be done by or to the Receiver or other person having power in law to administer his estate.

32 PERSONS UNABLE TO WRITE

If National Bonds Corporation (including in its capacity as the Mudareb) or these Terms and Conditions requires a document to be signed and a person cannot write, it shall be sufficient if the document is marked by that person in the presence of two witnesses in such manner as the Mudareb may require.

33 PAYMENT TO CHARITY IF UNABLE TO OBTAIN VALID DISCHARGE

If National Bonds Corporation (including in its capacity as the Mudareb) cannot for any reason obtain a valid discharge for any payment to be made to any person in relation to a National Bond, it is authorised to pay such amount to such charity or charities as may be approved from time to time by the Fatwa & Shari'a Supervisory Board.

DOCUMENTATION ISSUES

34 LOSS OF NATIONAL BONDS, ETC

- (a) A Bond Holder who has a National Bond that is lost, destroyed, worn out or defaced shall notify the Mudareb as soon as practicable;
- (b) If the Mudareb concludes that a National Bond has been issued in error, lost, destroyed, worn out or defaced, or is in such a condition so that it should be replaced by a new National Bond, it may, subject to the Terms and Conditions, issue a new

National Bond to replace the old National Bond to any person who provides evidence satisfactory to it that he is legally entitled to the ownership of the National Bond;

- (c) The Mudareb may attach any additional requirements or conditions to the issue of such new National Bond as it thinks fit, including the requirement to pay a processing fee or to provide an indemnity.

35 MANDATORY REDEMPTION OF NATIONAL BONDS

- (a) Subject to these Terms and Conditions, if any person breaches the provisions of the Terms and Conditions or in the case of mandatory redemption under clauses 18.5 or 23.7, the Mudareb has the authority and right to mandatorily redeem all or part of the relevant National Bonds provided that, in such circumstances, the Mudareb shall (to the extent permitted by law) pay to the person concerned a sum equal to the applicable Redemption Amount.
- (b) Notice of mandatory redemption shall be sent to the person concerned as soon as practical.
- (c) The Mudareb may require any mandatorily redeemed National Bonds to be returned to it to be cancelled or altered or otherwise dealt with as it considers fit.

36 RECTIFICATION OF ERRORS

- (a) If a person receives a document from the Mudareb which contains an error, that person must, as soon as practicable, notify the Mudareb in writing giving full details of the mistake.
- (b) If the Mudareb is satisfied that any transaction undertaken or action which has been carried out pursuant to these Terms and Conditions has been undertaken or done in error, it has the right to cancel the transaction and do everything, in its opinion, that is reasonably required to rectify the error. Without limiting its power and authority it may, amongst other matters, require any National Bond or other document to be returned to it.
- (c) If the Mudareb has caused the error, it shall be responsible for any costs directly related to rectifying the error. If a Bond Holder has caused the error, the Mudareb may claim any costs and expenses directly related to rectifying the error from that Bond Holder.

INDEMNITY OUT OF MUDARABA ASSETS

37 INDEMNITY IN FAVOUR OF NATIONAL BONDS CORPORATION

National Bonds Corporation (in whatever capacity), its directors, officers, employees, agents and representatives and any person acting under its authority, shall not be liable in respect of any payment duly made or act properly done in accordance with these Terms and Conditions and shall be entitled to be indemnified from the Mudaraba Assets in respect of any liability, costs or expenses that it may incur (in whatever capacity) in performing its duties and obligations contained and described in this prospectus unless such liability, cost or expense were attributable to the gross negligence or wilful default of National Bonds Corporation.

SECRECY

38 OBLIGATION OF SECRECY

A person employed by National Bonds Corporation in connection with the performance of its obligations and duties as described in this prospectus (including those in relation to any Authorised Outlet) shall not disclose to any person outside National Bonds Corporation the name of any Bond Holder, the number of National Bonds purchased by any person, or the amount repaid in respect of any National Bonds.

This Clause shall not prevent the disclosure of such information:

- (a) to the professional advisers of National Bonds Corporation;
- (b) to any consultants, agents or representatives of National Bonds Corporation (including Authorised Outlets) who have been engaged or hired in connection with the business of National Bonds Corporation and who agree to be bound by such confidentiality provisions;
- (c) to any regulatory authorities including law enforcement bodies;
- (d) as may be required by an order of a court or arbitral panel; or
- (e) as may be required by law.

NOTICES, AVAILABILITY OF PROSPECTUS AND LAW AND JURISDICTION

39 NOTICES

Communications and notices may be sent to the Bond Holders by some or all of the following methods as National Bonds Corporation may elect:

- (a) By mail, hand or by courier to the address shown in the Register for any Bond Holder;
- (b) Via the web site of National Bonds Corporation (**www.nationalbonds.ae**);
- (c) In two UAE newspapers; or
- (d) Via Approved Outlets or other points of sale including, without limitation, the offices and kiosks of National Bonds Corporation.

40 AVAILABILITY OF THE PROSPECTUS

This prospectus shall be available for inspection on the web site of National Bonds Corporation (**www.nationalbonds.ae**) or at the head office of National Bonds Corporation.

41 AMENDMENTS AND EXTENSIONS OF TERM

Other than for minor amendments dealing with such matters as typographical errors or other non material changes when only notification will be required without the requirement for the objection process mentioned below, the Mudareb may propose amendments to the Terms and Conditions (including a proposal to extend the term as provided for in Clause 30.1 of the Terms and Conditions) by sending a notice to the Bond Holders in the Register as of a date (**record date**) which shall be within the period seven days prior to the date of the notice. If during the period 21 days from the date of the notice, Bond Holders as of the record date that own 25% or more of the aggregate face value of issued National Bonds notify the Mudareb

that they object to the proposed amendments (including any proposed extension of the term), the proposed amendments (including any proposed extension of the term), shall not be effective. If there is no such level of objection, the Bond Holders agree that such proposed amendments (including any proposed extension of the term), shall become effective at the end of that 21-day period (or such other date mentioned in the notice).

The Auditor shall certify whether the objections received have reached the 25% threshold mentioned above.

The Mudareb shall notify the Bond Holders whether or not the proposed amendments (including any proposed extension of the term), have been accepted.

42 CLAIMS AGAINST THE MUDAREB

If Bond Holders who own 25% or more of the aggregate face value of issued National Bonds notify the Auditor in writing that they believe that the Mudareb has caused a loss or liability to the National Bonds Mudaraba and that the Mudareb should indemnify the National Bonds Mudaraba as provided for in the Terms and Conditions, the Auditor shall cause a meeting of the Bond Holders to be called within thirty (30) days of it receiving such notification. The meeting shall allow for proxy votes. The Auditor may take legal advice as it deems appropriate. If requested by the Auditor, the Mudareb shall put the Auditor in funds to cover any fees and expenses of the Auditor. If the Mudareb does not put the Auditor in funds, the Auditor may request the Bond Holders that requested the meeting to provide these funds. If such funds are not made available, the Auditor is not under any obligation to proceed any further.

The Auditor shall preside at the meeting until the Bond Holders have elected a chairman. The Bond Holders shall also select from their numbers one or more representatives and shall decide the manner in which they shall act in relation to pursuing (or not pursuing) any such claim against the Mudareb and in relation to the holding of any further meetings. All decisions of the Bond Holders shall be by simple majority by reference to the face value of the issued National Bonds present at the meeting or represented by proxy.

All costs and expenses (supported by appropriate invoices) related to the calling and holding of any meetings of the Bond Holders (including the fees and expenses of the Auditor) shall be an expense of the National Bonds Mudaraba and shall be re-imbursed by the Mudareb from the Mudaraba Assets on demand.

If a final and non appealable judgment is obtained against the Mudareb, the costs and expenses incurred by the Bond Holders in pursuing such action (including those related to any meetings of the Bond Holders) shall be re-imbursed out of the Mudaraba Assets to the extent that a court does not order the Mudareb to make such re-imbusement and to the extent that the Mudareb has not previously made reimbursement.

43 ANNUAL INCENTIVE

At the end of any Financial Year, a calculation shall be made (by reference to the Bond Holders as at the end of the Financial Year) of the profit return of each of those Bond Holders (by reference to their share of Distributable Profits). To the extent that a Bond Holder has not received a profit return of 3% p.a. for that Financial Year (pro rated if necessary), they must be paid an amount from the Bond Holders' entitlement to Distributable Profits (to the extent available) that will result in their profit return being 3% p.a. (pro rated if necessary).

For the avoidance of doubt, there is no guarantee that a 3% p.a. return will be achieved for the Bond Holders and, furthermore, the payment of any additional amount to the Bond Holders as mentioned above, is always subject to there being sufficient Mudaraba Assets available.

Once all of those Bond Holders have received such 3% p.a. profit return, then the balance of the amount of the Distributable Profits attributable to the Bond Holders shall be paid to the Mudareb as an Annual Incentive. The Annual Incentive shall be paid at the same time as the payment of the profit entitlements as described in Clause 11.2.

44 LAW AND JURISDICTION

- (a) These Terms and Conditions and the other provisions of this prospectus are governed by and interpreted in accordance with the laws of Dubai and applicable Federal laws of the UAE to the extent that they do not conflict with the Shari'a.
- (b) Subject to Clause 44 (c), the courts of Dubai have exclusive jurisdiction to settle any dispute which may arise in connection with these Terms and Conditions.
- (c) Clause 44 (b) is included for the benefit of National Bonds Corporation and accordingly National Bonds Corporation retains the right to bring proceedings against any Bond Holder in any other court which has jurisdiction, to which jurisdiction such Bond Holder irrevocably submits.