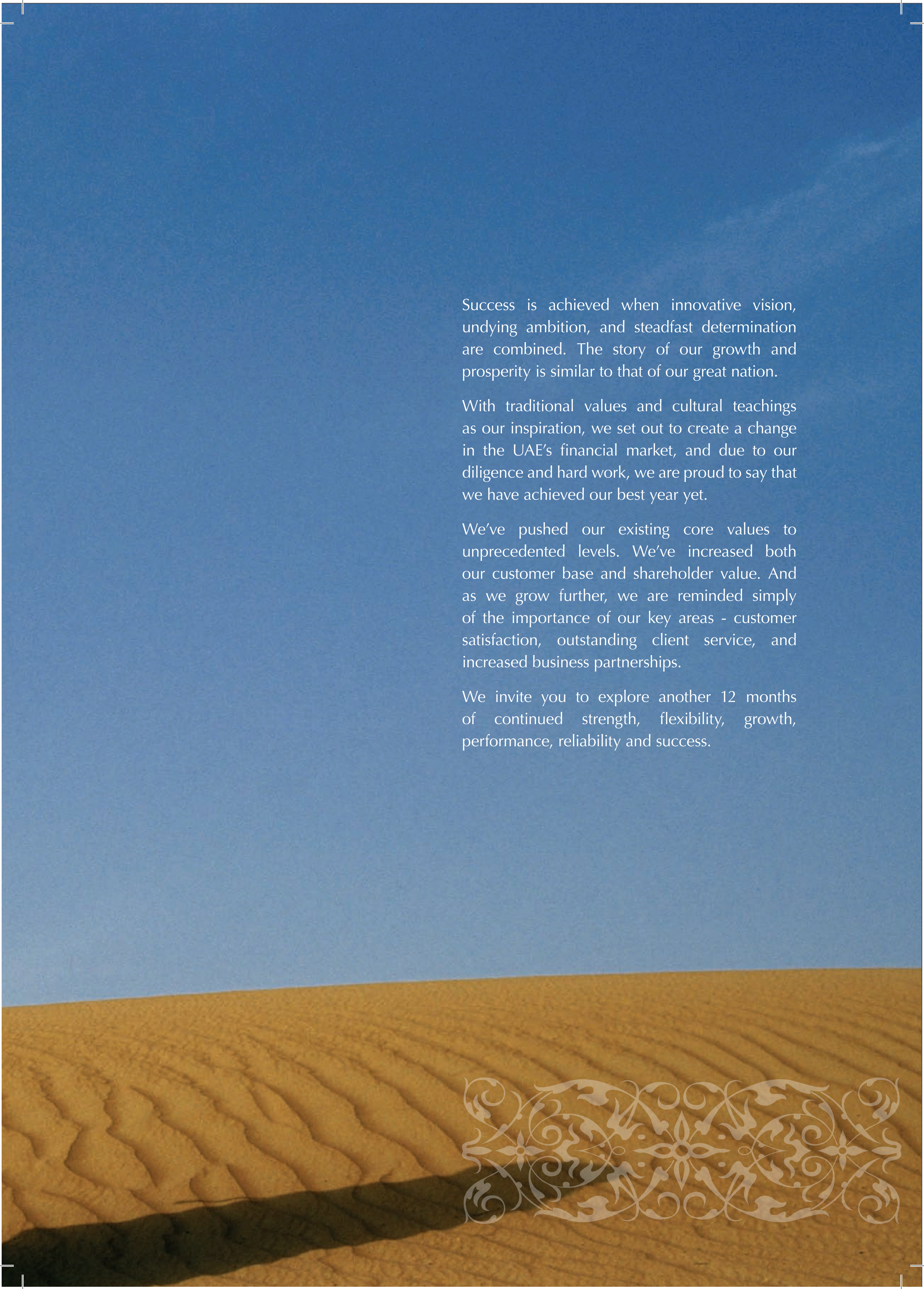
دار التمويل
FINANCE HOUSE
P.J.S.C - ش.م.ع

THE ART OF FINANCE

# 2006 ANNUAL REPORT



Success is achieved when innovative vision, undying ambition, and steadfast determination are combined. The story of our growth and prosperity is similar to that of our great nation.

With traditional values and cultural teachings as our inspiration, we set out to create a change in the UAE's financial market, and due to our diligence and hard work, we are proud to say that we have achieved our best year yet.

We've pushed our existing core values to unprecedented levels. We've increased both our customer base and shareholder value. And as we grow further, we are reminded simply of the importance of our key areas - customer satisfaction, outstanding client service, and increased business partnerships.

We invite you to explore another 12 months of continued strength, flexibility, growth, performance, reliability and success.

*To make our way, we must have firm resolve, persistence and tenacity. We must gear ourselves to work hard all the way.*

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# OUR VISION

Finance House aims to become one of the leading financial service providers in the region. Well researched techniques applied to innovative financial products and services reflect the vision of our founders. The essence of Finance House's vision is captured in the following.

We:

- Focus on local and regional markets and customers to ensure that all segments and individuals are addressed
- Ensure products and services that are tailored precisely to the requirements of our customers
- To be a progressive entity that utilises high-end technology to catapult the financial services sector into future generations and provide a reliable and flexible service
- Provide exceptional customer service by listening to our customers' demands and ensuring turn-around times are kept to a minimum

# OUR MISSION

To be one of the leading financial institutions in the UAE, distinguished by excellence in customer service, while providing competitive and innovative products, backed by state of the art technology.

To fulfil this mission, we commit to:

- Making our customers a priority
- Developing our employees
- Advancing the financial sector of the UAE
- Engaging in community development
- Undivided commitment to shareholders

# CHAIRMAN'S STATEMENT

I am delighted to present you with Finance House's second Annual Report. 2006 was a challenging yet rewarding year for the company, in that our performance constitutes a significant achievement – in value as well as in the quality of our earnings. We kept to our strategy of growing the core assets while staying within acceptable risk parameters.

## Strong Performance

- Net profit of AED 160.6 million as against AED 190.4 million for the previous 17 months - an increase of 19% on an annualised basis. It is this performance that has prompted us to propose to you a maiden dividend of 50% on our equity share capital.
- Loans and advances to customers up from AED 165.8 million to AED 348.7 million - an increase of 110%
- Customer deposit balances at AED 404.5 million as against AED 126.5 million - an increase of 220%
- Total assets grew to AED 1,315 million - up 24% over the previous year
- Shareholder's funds stands at a robust AED 724.3 million despite nervous capital markets.

## Economic Environment

It was also a year of contrasts for the UAE economy. The economy grew at a strong pace of 9.3%, fuelled by high oil prices, an unprecedented rise in foreign direct investment, the continuing boom in construction and in retail activity, while the capital markets plummeted in value, and inflation rode high. The equity markets as a whole lost more than half of their value in terms of market capitalisation, causing an array of problems in its wake, for individuals as well as institutional investors. As to inflation, it remained high, at an estimated 11%, fuelled by shortages in housing, transportation, skilled personnel and other areas. This put pressure on administration costs, and consequently on lending margins. To add to the challenges, the competition intensified in most business sectors, and certainly in the financial sector.

## Positive Developments

The following notable developments have made 2006 a memorable year for Finance House:

- The Finance House brand has been firmly established in the market within a relatively short time and has been given considerable exposure. Today there is a high recognition of the brand.
- I am equally pleased that we have found strong acceptance from depositors and banks, enabling us to source funds on reasonable terms.
- Finance House's credit cards have become very popular among the value conscious UAE consumer. Our value-added features and promotional measures are a rewarding proposition – to both cardholders and Finance House.
- Our launch of automobile finance for individuals was well received by the market. Backed by innovative offers, the portfolio continues to grow.
- During the year we signed co-operation agreements with several exchange houses, which gives us access to all of their branches in the UAE to serve as collection centres, as well as distribution points for our products.

- We were appointed Receiving Bank for nearly all of the large Initial Public Offerings (IPOs) that were launched in the UAE during the year, and managed to win a mandate as sole receiving bank for a private joint stock company.
- We successfully exited our first mezzanine financing deal.
- We launched our Trade Finance operations this year with the issuance of Letters of Credit for our trade customers.
- Our young investment portfolio realised significant gains on nearly all of our exits, both in public and private equity markets.
- We were admitted into the UAE Central Bank's Inter-Bank Electronic Funds Transfer system.
- We added significantly to our pool of management talent with the appointment of some very experienced professional bankers.

## An Integrated Portfolio of Businesses

Our three main business areas – Commercial Finance, Retail Finance, and Treasury – complement each other. Together they make up an integrated portfolio of activities, each of which plays a key role in the ongoing growth of the Company as a whole. Our commercial lending arm sees continuing potential for significant organic growth in the UAE. The retail financing activity provides a powerful and complementary extension to the commercial lending activities, with diversified risk and reward characteristics. Treasury manages our liquidity prudently while also seeking out opportunities to strengthen the Company's funding platform and providing value-added risk management services to the other divisions.

## Our People

The continuing success of our business is founded on the talent and dedication of all our people. The collective skill, knowledge and commitment of our diversified team of employees underpins an exceptionally strong culture of delivering value to our customers and the urge to be agile - the two attributes that truly drive our performance. Finance House differentiates itself by the people within it and the fact that all of our employees own shares in the Company underlines the close alignment between our employees' interests and those of the shareholders. I would like to reiterate that we are committed to growing Finance House into a world class organisation and one of the best employers in the UAE.

## Corporate Social Responsibility

Finance House is humbly committed to making a positive difference to the community in which we operate. Our donation to support the re-building of Lebanon in the wake of the wide-spread devastation caused by the conflict during the summer of 2006, and several other unheralded examples, illustrates this commitment.

## Looking Ahead

The future will bring major challenges and opportunities for Finance House. The financial services sector is ever more competitive and regulation continues apace. Market segments that we have previously regarded as niche are becoming more mainstream as institutions, with considerably greater resources than those available to us, awaken to the opportunities afforded by these business areas.

It is therefore vital that we do not become complacent. We will continue to review our strategy to ensure that we identify profitable niches in which to operate. We will concentrate our resources in those areas that we believe will offer the best sustainable returns in the medium to long term. We will also complete the geographic expansion process which we initiated in 2006. Finally, I have no doubt that the enthusiasm of our staff, and their commitment and determination, will ensure that the success enjoyed in 2006 is replicated in 2007.

## In Appreciation

My sincere thanks go out to my fellow Board Members for their insightful guidance and counsel. The Board joins me in thanking

- the UAE Central Bank for their continued support,
- our major shareholders for reaffirming their commitment,
- our clients for providing us with the opportunity to work with them,
- and finally, all our staff for their outstanding and continued dedication, hard work and professionalism throughout the year.

On behalf of the Board of Directors

Mohammed Abdullah Jumaa Alqubaisi
Chairman

*Our vision for success and prosperity*
*is as infinite as the horizon.*

## BOARD OF DIRECTORS

| | |
|---|---|
| Mr. Mohammed Abdullah Jumaa Alqubaisi | Chairman |
| Mr. Ahmad Obaid Humaid Al Mazroui | Vice Chairman |
| Mr. Eisa Saif Rashid Al Qubaisi | Member |
| Mr. Hamad Abdulla Rashid Al Shamsi | Member |
| Mr. Abdullah Ali Ibrahim Al Saadi | Member |
| Mr. Salem Mohammad Bin Salem Al Dhahiri | Member |
| Mr. Saeed Omair Bin Yousef | Member |

## MANAGEMENT TEAM

| | |
|---|---|
| Mr. Abdul Hamid Umer Taylor | General Manager |
| Mr. T.K. Raman | Chief Operating Officer |
| Mr. Ramesh S. Mahalingam | Chief Investments & Financial Officer |
| Mr. Mohammed Wassim Khayata | Executive Vice President - Strategic Planning |
| Mrs. Shagufta Farid Khan | Head of Internal Audit |
| Ms. Lina Abdul Hamid I. Elaraj | Manager - General Services |
| Mr. Elias A. Stephan | Head - Legal Department |
| Mr. Tarek Soubra | Vice President - Central Operations |


*The secret of success*
*is constancy to purpose*

# BUSINESS REVIEW

## Economic and Market Review

In 2006, the GCC countries experienced very favourable economic conditions, benefitting from fiscal surpluses and business optimism, resulting from high oil prices, and buoyed by low but rising interest rates, the latter being influenced by the monetary policy governing the US Dollar.

Commercial lending remained strong, underpinned by government projects, business expansion and diversification plans across the spectrum. Solid corporate earnings and healthy balance sheets, assisted by a conducive credit environment made for profitable lending opportunities.

Consumer lending was supported by high employment levels, continued wage growth in response to rising inflation levels, and a relatively low interest rate environment. Consumer credit quality levels were generally maintained at their previous high levels, although erosion in savings among the lower and middle income households did cause a potential reduction in their debt servicing capacity, underscoring the need for caution in addressing this market segment.

Finance House is well positioned to capitalise on these beneficial economic conditions.

## Commercial Finance

Our efforts to build a robust commercial loans portfolio continued in full measure through 2006. We made significant strides in adding to our core assets. With the help of our long-standing relationships and our deep roots amongst the business community of the UAE, we were able to grow the portfolio with good names. Our thorough credit process is matched by our faster processing cycle thereby resulting in quicker response to our clients.

Our appointment as the exclusive collection agent for a private joint stock real estate company in their capital raising effort was an affirmation of the capabilities we have developed in this area. These skills have been sharpened in the course of our close involvement with most of the large initial public offerings in the UAE over the past two years.

Other developments in 2006 in this area were that we profitably exited our first mezzanine finance deal, and commenced our trade finance activity with the issuance of letters of credit and guarantees.

## Retail Finance

We had a busy year on the retail front – our focus was on acquiring retail assets with good credit attributes. We added several innovative and value-added features to our credit cards, such as free newspaper subscription and cost-effective vehicle insurance. These measures have helped us boost new enrolments significantly in our target market segments.

Our Auto Finance scheme with the “Free Petrol” offer was received well by the market. Since the launch we have also managed to improve the lending margins on this product.

During the past year we also took measures to strengthen our retail products distribution platform through tie-ups with marketing associates, resulting in a higher penetration of our target market segments, with encouraging results.

In 2006 we enhanced our product development capabilities and introduced a rigorous testing process prior to launch of new products. All new retail products are evaluated for a range of risks under different market conditions to ensure that they meet our risk/reward parameters. Product development and innovation lies at the heart of our quest to widen our retail offering. It is our objective to eventually become a one-stop destination for personal finance products. Towards this end, we plan to commence writing mortgage business in the residential and commercial sectors.

## Investments

As we progressed with building up our credit portfolios through the year, our investment activity continued to earn us handsome returns through profitable exits, both in listed equities and private equity segments, notwithstanding the steep falls in the equity markets. These profits have enabled us to significantly boost the Company's retained earnings in its relatively short history.

## Treasury

Our treasury activities during the year were concentrated on developing a larger customer base for garnering corporate deposits, and these efforts have yielded very satisfactory results. In addition, we established funding lines with several leading banks, both short-term and medium-term tenors, and recorded a high utilisation of such limits at reasonable rates. We also set up our correspondent banking relationship with an international name, for efficient fund transfers, as well as to cater to increasing letter of credit business.

## Operations

On the operational front, we entered into agreements with several exchange houses to facilitate customers' payment of credit card outstanding balances, as well as to serve as distribution outlets for our retail products.

There was considerable internal focus in 2006 as we introduced operating procedures and manuals for most aspects of the business in our pursuit of best practices. We completed the implementation of the integrated core banking software platform and have begun realising its benefits. Allied to this was the implementation of a CRM software system which enabled us automate workflow procedures to significantly reduce our credit card approval processing time.

As we attempted to add to our infrastructural capabilities, we gained online access to the electronic funds transfer system of the Central Bank of the UAE, as well to its credit rating system.

## Risk Management

Prudent risk management involves assessing risk and managing it effectively. Certain credit risks are inherent in making loans, including commercial and consumer loans. The Company attempts to manage credit risks by adhering to internal credit policies and procedures. These policies and procedures include a multi-level loan approval process, manager limits, customer limits, country limits, and periodic documentation review. Loans are assigned a grade in keeping with the guidelines of the Central Bank of the UAE.

The low incidence of bad debt is an indication of the quality of assets booked by Finance House,and points to the Company's effective management of its credit risk. Net loan write-offs, including credit card receivables, amounted to a mere 0.02% of the average level of loans outstanding.

## Regulatory

Several measures were put in place during the year to comply with the anti-money laundering regulations. During the year we had a periodic review and examination by the Central Bank of the UAE, with no major discrepancies reported.

## Corporate Governance

It is our belief that good governance enables the creation and enhancement of shareholder value, and that good governance is as important to the success of Finance House as the operational achievements of the Company.

The Board of Directors, with its diversity of thought and experience, advises management in the development of strategy. Nearly every Board meeting over the past year included presentations on aspects of our business strategy, taking into account the opportunities and risks of the proposals presented. The Board regularly reviews corporate performance against objectives and participates with the management in an annual session dedicated to strategic planning.

In the course of supervising management's implementation of strategy, the Investment and Credit Committee reviews every credit proposal, every investment recommendation, and every major capital expenditure, prior to according approval.

The Audit Committee of the Board meets regularly to review the independent internal audit team's reports, recommendations, and follow up actions.

## Human Resources

During the year, we strengthened our senior management team considerably to exploit more fully the opportunities presented by the buoyant market conditions. In order to assist us in growing our business volumes we added 48 client-facing personnel in the retail business.

We also implemented a performance appraisal system linked to an incentive structure, as a means of motivating business divisions to meet or exceed goals, and to attract better talent. A related measure was the introduction of the Employee Recognition programme, under which outperformers are identified and the Employee of the Month/Year is selected by a panel comprising senior staff members. A monetary reward and a citation are conferred in a staff ceremony each month.

It is a key objective of the senior and middle management to meet with the employees to discuss the company's vision, goals, strategies and progress.

## Associate Companies

Both of our associate companies reported good performances in 2006. Despite volatile capital markets in the UAE, Gulf National Securities Center LLC reported significantly higher revenues and profits than in the previous year. During the year we increased our holdings in The Financial Corporation SAOG, Muscat ("Fincorp") to just over 20%. We view this acquisition as an important step towards building synergies with progressive institutions in order to extend the range and reach of financial services within the region

## Future Prospects

The Company is operating a multi-year strategic plan, with clearly defined objectives and goals, to which the management is committed. While the domestic economy and environment are sound, we have to be cognisant of the potential consequences of regional events for the UAE. After taking the relevant factors into account, including the prospects for the financial sector, growth opportunities, competitor activities and our operating and management skills, we look ahead with optimism for continued growth in the year ahead.

# FINANCIAL REVIEW

2006 marked the second year of Finance House's operations. The company's Balance Sheet, Net Profit and Capital base continued to improve, demonstrating the fundamental strength of the company.

## BALANCE SHEET

### Total Assets

Total Assets as at 31st December 2006 were AED 1.31 billion, an increase of 24% over the previous year-end, primarily due to an increase in the company's loan portfolio.

### Loans and Advances

Net Loans and Advances grew to AED 348.7 million, as compared to AED 165.8 million in 2005, constituting an increase of 110%. Both commercial and the retail loans have witnessed increases, of 97% and 188% respectively. Both categories of loans - commercial and retail - carry a high credit quality, with very low default ratio levels. The company follows a policy of prudent provisioning and accordingly, the allowance for potential impairment stands at 5.4% of the total Loans and Advances.

### Investments

The total investments at the year-end stood at AED 543.8 million as compared to AED 619.4 million in 2005. The company's investments have proved to be very profitable in boosting its income. The company's investments are mostly in liquid assets, and have proved to be an excellent source of profitability till such time as the Loan Book expands to reach critical mass. The reduction in investments is part of the company's active strategy of scaling down investments as the loan portfolio grows.

### Deposits

Total Deposits grew to AED 554.5 million at the year end, which represents a 172% increase over the previous year's level of AED 203.6 million. The bulk of these deposits comprise corporate deposits which grew 220% over the previous year, while the remaining deposits consists of deposits from Banks, and grew by a relatively modest 95% over the previous year.

### Capital Strength

Shareholders' Equity as at year-end amounted to AED 724.3 million, of which the Retained Earnings component (pre-dividend) grew to AED 308.8 million, marking an increase of 84% over the previous year. The movement in the cumulative changes in fair value is chiefly attributed to the realisation of profits during the year on the company's investments. The Company's Balance Sheet reflects a low capital gearing at 0.8, a testimony to its strong capitalisation, and to its leveraging capabilities to fund its future growth plans.

### Capital Adequacy

As a further indication of the Company's strong capital base and conservative approach, the risk-adjusted capital adequacy ratio (computed in accordance with the guidelines of the Central Bank of the UAE) was 69%, substantially higher than the regulatory stipulation of 15%.

## INCOME STATEMENT

Net operating income for the year ended 31st December 2006 rose to AED 216.1 million, which represents an increase of 12% over the annualised figure of the previous reporting period covering 17 months' operations. Similarly, the net profit for 2006 rose to AED 160.6 million, a growth of 19% based on a similar comparison. A maiden cash dividend of 50% on equity share capital has been declared.

To enable relevant comparisons with the previous year, 'Previous Year' in the remainder of this section refers to the previous period's figures pro-rated to 12 months.

Earnings per share came to 80 fils in 2006 as against a comparable figure of 67 fils for the Previous Year. Return on average equity during 2006 stood at 21% and return on average assets amounted to 13.5%. (Since the previous year was the first year of the Company's operations, it does not make for meaningful comparisons of ratios based on average equity and average assets).

Net interest income for 2006 was AED 33.8 million, as against AED 25.7 million for the Previous Year, the increase of 31.5% being the result of the growth in the loan portfolio.

Investment income for 2006 was AED 176 million, an increase of 16.2% over the comparable figure of AED 152 million for the Previous Year.

General and administrative expenses were kept under control in 2006 and amounted to 20.1% of the Company's total operating income for the year. The comparative figure for 2005 was 27.7%.

*The youth of today*
*are the future of tomorrow.*

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Finance House P.J.S.C.
Abu Dhabi, UAE

We have audited the accompanying financial statements of Finance House P.J.S.C. (the "Company"), which comprise the balance sheet as at 31 December 2006, the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 27 to 54.

*Management's Responsibility for the Financial Statements*

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Report on Other Legal and Regulatory Requirements*

Also, in our opinion, proper books of account are maintained by the Company, and the information included in the Board of Directors' report related to the financial statements is in agreement with the books of account. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) or the Articles of Association of the Company during the year which might have a material effect on the financial position of the Company or on the results of its operations for the year.

Ahmad Nimer
Registration No. 380
22 January 2007

**Deloitte & Touche (M.E.)**
Bin Ghanim Tower, 10th floor, Hamdan Street
P.O. Box 990, Abu Dhabi, United Arab Emirates
Tel: +971 2 676 0606, Fax: +971 2 676 0644
www.deloitte.com


*Small opportunities are often*
*the beginning of great enterprises.*

FINANCE HOUSE P.J.S.C.

# BALANCE SHEET

as at 31 December 2006

| | Notes | 2006 AED'000 | 2005 AED'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash balances | | 667 | 100 |
| Deposits and balances due from banks | 5 | 373,716 | 230,380 |
| Investments held for trading | 6 | 4,178 | 4,279 |
| Investments available for sale | 7 | 519,533 | 604,312 |
| Loans and advances | 8 | 348,694 | 165,782 |
| Investment in associates | 9 | 20,076 | 2,736 |
| Other investment | 10 | - | 8,049 |
| Interest receivable and other assets | 11 | 17,296 | 10,973 |
| Property, fixtures and equipment, net | 12 | 30,839 | 32,175 |
| **Total assets** | | **1,314,999** | 1,058,786 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Liabilities** | | | |
| Customers' deposits | | 404,535 | 126,492 |
| Deposits and balances due to banks | 13 | 150,000 | 77,122 |
| Interest payable and other liabilities | 14 | 36,126 | 46,950 |
| **Total liabilities** | | **590,661** | 250,564 |
| **Equity** | | | |
| Share capital | 15 | 200,000 | 200,000 |
| Employees share-based payment scheme | 16 | (1,928) | (2,244) |
| Statutory reserve | 17 | 35,105 | 19,045 |
| Revaluation reserve | 18 | 20,000 | 20,000 |
| Cumulative changes in fair values | | 138,818 | 400,012 |
| Retained earnings | | 208,843 | 167,799 |
| Proposed dividend | 19 | 100,000 | - |
| Convertible bonds | 20 | 20,000 | - |
| Proposed directors' remuneration | | 3,500 | 3,610 |
| **Total shareholders' equity** | | **724,338** | 808,222 |
| **Total liabilities and shareholders' equity** | | **1,314,999** | 1,058,786 |
| **Commitments and contingent liabilities** | 21 | **82,287** | 47,937 |

**Mr. Mohammed Alqubaisi**
Chairman

**Mr. Hamid Taylor**
General Manager

The accompanying notes are an integral part of these financial statements.

# INCOME STATEMENT

for the year ended 31 December 2006

| | Notes | Year ended 31 December 2006 AED'000 | Period from 18 July 2004 (inception) to 31 December 2005 AED'000 |
|---|---|---|---|
| Interest income | | 50,084 | 59,523 |
| Interest expense | | (16,278) | (23,047) |
| **Net interest income** | | **33,806** | 36,476 |
| Net fee and commission income | | 4,006 | 22,251 |
| Dividend income | | 2,232 | 865 |
| Other operating income | | 1,553 | 101 |
| Net realised gain on disposal of investments held for trading | | 140 | 13,387 |
| Net realised gain on disposal of investments available for sale | **22** | 172,985 | 199,800 |
| Unrealised loss on investments held for trading | | (102) | (136) |
| Share of profit of associates | **9** | 1,450 | 1,536 |
| **Total operating income** | | **216,070** | 274,280 |
| General and administrative expenses | **23** | **(39,080)** | (73,796) |
| Depreciation on property, fixtures and equipment | **12** | **(4,380)** | (2,241) |
| Allowance for impairment of loans and advances | **8** | **(12,006)** | (7,789) |
| **Total operating expenses** | | **(55,466)** | (83,826) |
| **Net profit for the year/period** | | **160,604** | 190,454 |
| **Basic earnings per share (AED)** | **24** | **AED 0.80** | AED 0.95 |

The accompanying notes are an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

## for the year ended 31 December 2006

| | Share capital | Employees share-based payment scheme | Statutory reserve | Revaluation reserve | Cumulative changes in fair value | Retained earnings | Proposed dividend | Convertible bonds | Proposed directors' remuner-ation | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| Proceeds from paid up share capital | 200,000 | - | - | - | - | - | - | - | - | 200,000 |
| Increase in fair value of investments available for sale | - | - | - | - | 451,372 | - | - | - | - | 451,372 |
| Realised gain on sale of investments available for sale | - | - | - | - | (51,360) | - | - | - | - | (51,360) |
| Revaluation of land granted (note 18) | - | - | - | 20,000 | - | - | - | - | - | 20,000 |
| Net profit for the period | - | - | - | - | - | 190,454 | - | - | - | 190,454 |
| Transfer to statutory reserve | - | - | 19,045 | - | - | (19,045) | - | - | - | - |
| Proposed Directors' remuneration | - | - | - | - | - | (3,610) | - | | 3,610 | - |
| Employees share-based payment scheme | - | (2,244) | - | - | - | - | - | - | - | (2,244) |
| **Balance at 1 January 2006** | **200,000** | **(2,244)** | **19,045** | **20,000** | **400,012** | **167,799** | **-** | **-** | **3,610** | **808,222** |
| Decrease in fair value of investments available for sale | - | - | - | - | (23,370) | - | - | - | - | (23,370) |
| Realised gain on sale of investments available for sale | - | - | - | - | (237,824) | - | - | - | - | (237,824) |
| Directors' Remuneration | - | - | - | - | - | - | - | - | (3,610) | (3,610) |
| Net profit for the year | - | - | - | - | - | 160,604 | - | - | - | 160,604 |
| Transfer to statutory reserve | - | - | 16,060 | - | - | (16,060) | - | - | - | - |
| Proposed dividend | - | - | - | - | - | (100,000) | 100,000 | - | - | - |
| Proposed Directors' remuneration | - | - | - | - | - | (3,500) | - | - | 3,500 | - |
| Utilisation under employees share-based payment scheme | - | 316 | - | - | - | - | - | - | - | 316 |
| Convertible Bonds issued (note 20) | - | - | - | - | - | - | - | 20,000 | - | 20,000 |
| **Balance at 31 December 2006** | **200,000** | **(1,928)** | **35,105** | **20,000** | **138,818** | **208,843** | **100,000** | **20,000** | **3,500** | **724,338** |

The accompanying notes are an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

for the year ended 31 December 2006

| | Notes | Year ended 31 December 2006 AED'000 | Period from 18 July 2004 (inception) to 31 December 2005 AED'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Net profit for the year/period | | **160,604** | 190,454 |
| Adjustments for: | | | |
| Depreciation of property, fixtures and equipment | | **4,380** | 2,241 |
| Write off of capital work in progress | | **462** | 307 |
| Distribution of shares under employees share based payment | | **316** | 1,256 |
| Dividend income | | **(2,232)** | (865) |
| Realised gain on disposal of investments held for trading | | **(140)** | (13,387) |
| Realised gain on disposal of investments available for sale | | **(172,985)** | (199,800) |
| Unrealised loss on revaluation of investments held for trading | | **102** | 136 |
| Share of profit of associates | | **(1,450)** | (1,536) |
| Allowance for impairment of loans and advances | | **12,006** | 7,789 |
| **Operating profit/(loss) before changes in operating assets and liabilities** | | **1,063** | (13,405) |
| Purchase of investments held for trading | | **(176,174)** | (95,808) |
| Proceeds from sale of investments held for trading | | **176,313** | 104,780 |
| Increase in loans and advances | | **(194,918)** | (173,571) |
| Increase in interest receivable and other assets | | **(6,323)** | (10,973) |
| Increase in customers' deposits | | **278,043** | 126,492 |
| (Decrease)/increase in interest payable and other liabilities | | **(10,824)** | 46,950 |
| **Net cash from/(used in) operating activities** | | **67,180** | **(15,535)** |
| **Investing activities** | | | |
| Purchase of investments available for sale | | **(509,716)** | (509,921) |
| Proceeds from sale of investments available for sale | | **570,526** | 560,421 |
| Finance cost incurred on acquisition of available for sale investments disposed off during the year | | **(64,240)** | (55,000) |
| Purchase of property, fixtures and equipment | | **(3,506)** | (14,723) |
| Investment in associates | | **(7,841)** | (1,200) |
| Other investment | | - | (8,049) |
| Dividend income received | | **2,232** | 865 |
| **Net cash used in investing activities** | | **(12,545)** | (27,607) |
| **Financing activities** | | | |
| Proceeds from paid up share capital | | - | 200,000 |
| Directors' remuneration paid | | **(3,610)** | - |
| Purchase of shares under employee share-based payment scheme | | - | (3,500) |
| Proceeds from convertible bond issue | **20** | **20,000** | - |
| **Net cash from financing activities** | | **16,390** | 196,500 |
| **Net increase in cash and cash equivalents** | | **71,025** | 153,358 |
| Cash and cash equivalents at beginning of the year/period | | **153,358** | - |
| **Cash and cash equivalents at the end of the year/period** | **25** | **224,383** | 153,358 |

The accompanying notes are an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 1 General

Finance House P.J.S.C. (the "Company") is a Public Joint Stock Company incorporated in the Emirate of Abu Dhabi, United Arab Emirates in accordance with the provisions of UAE Federal Commercial Companies Law No. (8) of 1984 (as amended), the UAE Central Bank, the Monetary System and Organisation of Banking Law No. (10) of 1980 and under authority of resolutions of the Board of Directors of the UAE Central Bank relating to Finance Companies.

The Company was established on 13 March 2004 and it commenced its operations on 18 July 2004.

The principal activities of the Company consist of investments, consumer and commercial financing and other related services.

The Company is in the process of being restructured into a holding company and necessary legal formalities in this regard are presently being completed with the responsible Authorities.

The registered head office of the Company is at P.O. Box 7878, Abu Dhabi, United Arab Emirates (UAE).

The financial statements are presented in UAE Dirhams (AED) since that is the currency in which the majority of the Company's transactions are denominated.

## 2 Adoption of new and revised standards

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations has resulted in some minor changes to the Company's presentations and disclosure in the financial statements.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective.

| | |
|---|---|
| • IFRS 7 Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures | Effective for annual periods beginning on or after 1 January 2007 |
| • IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies | Effective for annual periods beginning on or after 1 March 2006 |
| • IFRIC 8 Scope of IFRS 2 | Effective for annual periods beginning on or after 1 May 2006 |
| • IFRIC 9 Reassessment of Embedded Derivatives | Effective for annual periods beginning on or after 1 June 2006 |
| • IFRIC 10 Interim Financial Reporting and Impairment | Effective for annual periods beginning on or after 1 November 2006 |
| • IFRIC 11 IFRS2: Company and Treasury Share Transactions | Effective for annual periods beginning on or after 1 March 2007 |
| • IFRIC 12 Service Concession Arrangements | Effective for annual periods beginning on or after 1 January 2008 |

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company.

## 3 Summary of significant accounting policies

### Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on the historical cost basis, except for certain financial instruments which are carried at fair values and a property based on its professional valuation. The principal accounting policies adopted are set out below:

### Investments in securities

Investments in securities are recognised on settlement date basis and are initially measured at cost.

Investments are classified as either held for trading or available for sale, and are measured at subsequent reporting dates at fair value, based on quoted market bid prices at close of business on the balance sheet date, where available. In the absence of quoted market prices, the fair value is determined with reference to the latest financial information of the investee. Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For investments available for sale, unrealised gains and losses are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

Any significant change in the fair value of the investments which the Company has committed to purchase at the balance sheet date is recognised in the income statement for investments classified as held for trading and in the statement of changes in equity for investments classified as available for sale.

### Investment in associates

An associate is an entity over which the Company is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the balance sheet at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associates, less any impairment, other than a temporary decline, in the value of individual investments.

Where the Company transacts with an associate, significant profits and losses are eliminated to the extent of the Company's interest in the relevant associate.

### Loans and advances

Loans and advances are stated at cost less any amounts written off and allowance for impairment.

Allowance for impairment is made against loans and advances when their recovery is in doubt taking into consideration IFRS requirements for fair value measurement and the UAE Central Bank of the UAE guidance. Loans and advances are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

## 3 Summary of significant accounting policies (continued)

### Impairment of loans

*(i) Individually assessed loans*

Represent mainly corporate and commercial loans which are assessed individually and classified by Credit Risk Unit in order to determine whether any objective evidence exists that a loan is impaired.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate.

Impairment loss is calculated as the difference between the loan's carrying value and its present impaired value.

*(ii) Collectively assessed loans*

Impairment losses of collectively assessed loans include the allowances calculated on:
a) Performing loans
b) Retail loans with common features and which are not individually significant

*Performing loans*

Where individually assessed loans are evaluated and no evidence of loss has been identified, these loans are classified as performing loans portfolios with common credit risk characteristics based on industry, product or loan rating.

Impairment loss includes losses which may arise from individual performing loans that are impaired at the balance sheet date but were not specifically identified as such until some time in the future.

The estimated impairment is calculated by the Company's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

*Retail loans with common features and which are not individually significant*

Impairment of retail loans is calculated by applying formulaic approach which allocates progressively higher loss rates in line with the overdue installment date.

Impaired loans are written off only when all legal and other avenues for recovery or settlement are exhausted.

### Property, fixtures and equipment

Freehold land granted by the Government of the Emirate of Abu Dhabi is carried at the professionally valued amount.

Fixtures, equipment, vehicles and computer hardware and software are stated at cost less accumulated depreciation, and impairment loss (if any).

The cost of property, fixtures and equipment is their purchase cost together with any incidental expenses of acquisition including professional fee.

## 3 Summary of significant accounting policies (continued)

### Property, fixtures and equipment (continued)

Depreciation is charged so as to write off the cost or valuation of assets other than land and properties under construction, over their estimated useful lives using the straight-line method on the following basis:

| | |
|---|---|
| Furniture, fixtures and equipment | 3 - 5 years |
| Motor vehicles | 4 years |
| Computer hardware and software | 3 - 4 years |

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the income statement.

### Capital work in progress

Capital work in progress is stated at cost. When commissioned, capital work in progress is transferred to the appropriate furniture, fixtures and office equipment category and depreciated in accordance with the Company's policies.

### Employees' end-of-service benefits

Provision is made for estimated amounts required to cover employees' end-of-service benefit at the balance sheet date as per UAE Labour Law.

With respect to national employees, the Company makes contributions to Abu Dhabi Retirement Pension and Benefits Fund calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions which are expensed when due.

### Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

### Deposits

All money market and customer deposits are carried at cost less amounts repaid.

### Revenue and expense recognition

Interest income and expense and loan commitment fees are recognised on a time proportion basis, taking into account the principal outstanding and the rate applicable. Interest income and expense include the amortisation of discounts or premiums using the effective interest rate method. When the interest income or principal is in doubt, the recognition of income ceases. Commission and fee income are generally accounted for on the transaction date. Other fees receivable or payable are recognised when earned or incurred. Dividend income is recognised when the right to receive payment is established.

## 3 Summary of significant accounting policies (continued)

### Foreign currencies

Transactions in currencies other than UAE Dirhams are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies at the balance sheet date are revalued at the rates prevailing on that date. Gains and losses arising on exchange are included in the income statement.

### Impairment of assets

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount and the increase is recognised as income immediately, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised earlier.

The impairment loss for loans and advances also covers losses where there is objective evidence that probable losses are present in components of the loans and advances portfolio at the balance sheet date. These are estimated based on historical patterns of losses in each component, and the credit ratings allocated to the borrowers and reflect the current economic climate in which the borrowers operate.

### Cash and cash equivalents

Cash and cash equivalents are comprised of cash and balances with the UAE Central Bank, deposits with banks which mature within three months of the date of placement, net of balances due to banks maturing within three months from the date of taking.

### Trade and settlement date accounting

The "regular way" purchase and sales of financial assets are recognised on the settlement date basis i.e. the date that the Company physically receives or transfers the assets. Regular way purchases or sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Any significant change in the fair value of assets which the Company has committed to purchase at the balance sheet date is recognised in the income statement for assets classified as held for trading and in the statement of changes in equity for assets classified as available for sale.

### Offsetting financial assets and liabilities

Financial assets and financial liabilities are only offset and the net amount disclosed in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the Company intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

## 4 Critical accounting judgements and key sources of estimation of uncertainty

While applying the accounting policies as stated in Note 3, the management of the Company has made certain judgements. These judgements mainly have a significant effect on the carrying amounts of loans and advances. The significant judgements made by the management in arriving at the carrying amounts of loans and advances and fair values of derivative financial instruments are summarised as follows:

### Loans and advances

The allowance for loan losses is established through charges to income statement in the form of an allowance for loan loss. Increases and decreases in the allowance due to changes in the measurement of the impaired loans are included in the allowance for loan losses and affect the income statement accordingly.

*Individually assessed loans*

Impairment losses for individually assessed loans are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate loans and advances which are individually significant accounts or are not subject to the portfolio-based approach.

The following factors are considered by management when determining the allowance for impairment on individual loans and advances which are significant:

- The amount expected to be realised on disposal of collateral.
- The Company's ability to enforce its claim on the collateral and associated cost of litigation.
- The expected time frame to complete legal formalities and disposal of collateral.

The Company's policy requires regular review of the level of impairment allowances on individual facilities and regular valuation of the collateral and its enforceability.

Impaired loans continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable.

*Collectively assessed loans*

Collective assessment of allowance for impairment is made for overdue retail loans with common features which are not individually significant and performing loans which are not found to be individually impaired.

The following factors are considered by management when determining allowance for impairment for such loans:

Retail loans – All the loans falling under similar overdue category are assumed to carry similar credit risk and allowance for impairment is taken on a gross basis.

Other performing loans – The management of the Company assesses based on historical experience and the prevailing economical and credit conditions, the magnitude of loans which may be impaired but not identified as of the balance sheet date.

## 5 Deposits and balances due from banks

| | **31 December 2006** | 31 December 2005 |
|---|---|---|
| | **AED'000** | AED'000 |
| Current and demand accounts | **1,785** | 4,381 |
| Fixed placements | **366,866** | 213,140 |
| Call accounts | **5,065** | 12,859 |
| | **373,716** | 230,380 |

## 6 Investments held for trading

| | **31 December 2006** | 31 December 2005 |
|---|---|---|
| | **AED'000** | AED'000 |
| At fair value | **4,178** | 4,279 |

Investments held for trading represent investment securities that present the Company with opportunity for returns through dividend income and trading gains. They have no fixed maturity or coupon rate. The fair value of these investments are based on quoted prices at close of business as of 31 December 2006.

## 7 Investments available for sale

The fair value of the investments available for sale is comprised of the following:

| | **31 December 2006** | 31 December 2005 |
|---|---|---|
| | **AED'000** | AED'000 |
| Investment in quoted securities | **489,455** | 540,948 |
| Investment in unquoted securities | **30,078** | 63,364 |
| | **519,533** | 604,312 |

The movement in investments available for sale during the year/period was as follows:

| | **Year ended 31 December 2006** | Period ended 31 December 2005 |
|---|---|---|
| | **AED'000** | AED'000 |
| Opening balance | **604,312** | - |
| Purchases | **509,716** | 509,921 |
| Disposals | **(333,301)** | (305,621) |
| Net (decrease)/increase in fair value | **(261,194)** | 400,012 |
| **Fair value** | **519,533** | 604,312 |

Available for sale investments include investments in unquoted equity instruments which are carried at cost amounting to AED 8,548,500 (31 December 2005 AED 2,500,000).

## 8 Loans and advances

| | 31 December 2006 AED'000 | 31 December 2005 AED'000 |
|---|---|---|
| Commercial loans | **280,198** | 135,692 |
| Credit cards | **55,731** | 23,018 |
| Car loans | **29,103** | 5,332 |
| Personal loans | **592** | 1,131 |
| Bills discounted | **545** | 5,400 |
| Others | **2,320** | 2,998 |
| | **368,489** | 173,571 |
| Less: allowance for impairment | **(19,795)** | (7,789) |
| | **348,694** | 165,782 |

Loans and advances are stated net of allowance for non-recovery. The movements in the allowance during the year/period were as follows:

| | Year ended 31 December 2006 AED'000 | Period ended 31 December 2005 AED'000 |
|---|---|---|
| **At January 1** | **7,789** | - |
| Charge for the year/period | **12,006** | 7,789 |
| **At December 31** | **19,795** | 7,789 |

The composition of the loans and advances portfolio is as follows:

| | 31 December 2006 AED'000 | 31 December 2005 AED'000 |
|---|---|---|
| **Economic sector** | | |
| Trade | **201,835** | 105,690 |
| Construction | **938** | 12,040 |
| Real estate | **59,561** | 2,361 |
| Manufacturing | **10,600** | 4,509 |
| Transport | **7,697** | 3,760 |
| Retail and personal loans | **85,840** | 29,756 |
| Others | **2,018** | 15,455 |
| | **368,489** | 173,571 |
| Less: allowance for impairment | **(19,795)** | (7,789) |
| | **348,694** | 165,782 |

The Company's loans and advances portfolio was held only in the UAE domestic market as of 31 December 2006 and 2005.

## 9 Investment in associates

| | **Year ended 31 December 2006** | Period ended 31 December 2005 |
|---|---|---|
| | **AED'000** | AED'000 |
| Cost | **17,090** | 1,200 |
| Share of post acquisition profit, net of dividend received | **2,986** | 1,536 |
| | **20,076** | 2,736 |

Details of Company's associates as of 31 December 2006 are as follows:

| **Name of the associate** | **Place of incorporation and operation** | **Percentage of holding** | **Principal activity** |
|---|---|---|---|
| Gulf National Securities Center L.L.C | United Arab Emirates | 10% | Brokerage services in local stocks and commodities. |
| The Financial Corporation SAOG | Sultanate of Oman | 21.3% | Asset management, trading in securities, share brokerage, and corporate finance. |

The Company increased its shareholding in The Financial Corporation SAOG during the year to 21.3% (2005: 13%).

Although the Company holds only 10% of the paid-up capital of Gulf National Securities Center L.L.C., it exercises significant influence by virtue of its representation in the Board of Directors of this Company.

For the purpose of applying equity method of accounting, the financial statements of the associates as at 30 September 2006 have been used.

The fair value of the Company's investment in The Financial Corporation SAOG which is listed in Muscat Securities Market in the Sultanate of Oman as of 31 December 2006 is AED 16,293,362.

(continued)

## 9 Investment in associates (continued)

Summarised financial information in respect of Company's associates are set out as follows:

| | **31 December 2006** | 31 December 2005 |
|---|---|---|
| | **AED'000** | AED'000 |
| Total assets | **246,050** | 118,662 |
| Total liabilities | **(133,888)** | (76,280) |
| **Net assets** | **112,162** | 42,382 |
| **Company's share of net assets** | **19,146** | 4,238 |
| **Company's share of contingent liabilities** | **594** | 1,002 |

| | **Year ended 31 December 2006** | Period ended 31 December 2005 |
|---|---|---|
| | **AED'000** | AED'000 |
| Revenue | **24,779** | 17,632 |
| Net profit for the year/period | **14,500** | 15,358 |
| **Company's share of net profit for the year/period** | **1,450** | 1,536 |

## 10 Other investment

| | **31 December 2006** | 31 December 2005 |
|---|---|---|
| | **AED'000** | AED'000 |
| At cost | - | 8,049 |

Other investment represents investment in the Financial Corporation Company SAOG which has been recognised as an Associate in the current year (note 9).

## 11 Interest receivable and other assets

| | **31 December 2006** | 31 December 2005 |
|---|---|---|
| | **AED'000** | AED'000 |
| Interest receivable | **9,961** | 1,730 |
| Prepayments | **5,500** | 2,731 |
| Accounts receivable | **697** | 6,346 |
| Other assets | **1,138** | 166 |
| | **17,296** | 10,973 |

## 12 Property, fixtures and equipment

| | Freehold land | Furniture, fixtures and equipment | Motor vehicles | Computer hardware and software | Capital work in progress | Total |
|---|---|---|---|---|---|---|
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| **Cost or valuation** | | | | | | |
| Additions during the period | 20,000 | 1,838 | 299 | 2,630 | 9,956 | 34,723 |
| Transfers | - | 5,014 | - | 4,455 | (9,469) | - |
| Write off | - | - | - | - | (307) | (307) |
| **At 1 January 2006** | **20,000** | **6,852** | **299** | **7,085** | **180** | **34,416** |
| Additions during the year | - | 726 | 134 | 2,646 | - | 3,506 |
| Transfers | - | - | - | 180 | (180) | - |
| Write off | - | - | - | (494) | - | (494) |
| **At 31 December 2006** | **20,000** | **7,578** | **433** | **9,417** | **-** | **37,428** |
| Depreciation | | | | | | |
| Charge during the period | - | 1,261 | 62 | 918 | - | 2,241 |
| **At 1 January 2006** | **-** | **1,261** | **62** | **918** | **-** | **2,241** |
| Charge during the year | - | 1,798 | 103 | 2,479 | - | 4,380 |
| Write off | - | - | - | (32) | - | (32) |
| **At 31 December 2006** | **-** | **3,059** | **165** | **3,365** | **-** | **6,589** |
| **Net book value** | | | | | | |
| **At 31 December 2006** | **20,000** | **4,519** | **268** | **6,052** | **-** | **30,839** |
| At 31 December 2005 | 20,000 | 5,591 | 237 | 6,167 | 180 | 32,175 |

The freehold land was granted free of cost by the Government of Abu Dhabi on which the Company has the intention to build its head office premises. The value of the land is based on professional valuation performed by an independent real estate valuer in 2005.

## 13 Deposits and balances due to banks

| | **31 December 2006** | 31 December 2005 |
|---|---|---|
| | **AED'000** | AED'000 |
| Current and demand deposits | - | 2,122 |
| Deposits maturing within three months | **150,000** | 75,000 |
| | **150,000** | 77,122 |

## 14 Interest payable and other liabilities

| | 31 December 2006 AED'000 | 31 December 2005 AED'000 |
|---|---|---|
| Interest payable | **5,253** | 766 |
| Accrued expenses | **26,065** | 43,257 |
| Employees' end-of-service benefits | **616** | 265 |
| Other liabilities | **4,192** | 2,662 |
| | **36,126** | 46,950 |

## 15 Share capital

| | 31 December 2006 AED'000 | 31 December 2005 AED'000 |
|---|---|---|
| **Authorised** | | |
| 200,000,000 shares of AED 1 each | **200,000** | 200,000 |
| **Issued and fully paid** | | |
| 200,000,000 shares of AED 1 each | **200,000** | 200,000 |

At 31 December 2006, a total of 39,975,000 shares (31 December 2005: 39,775,000), representing 19.99% holding, were held by the Abu Dhabi Investment Company (ADIC).

## 16 Employees' share-based payment scheme

The share-based payment scheme is administered by a trustee and gives the Board the authority to determine which employees of the Company will be granted the shares. The value of shares granted to employees are expensed in the period in which they are granted, and that of the remaining shares are included within shareholders' equity.

During the year, 297,846 shares (Inception to 31 December 2005 - 1,384,251 shares) were granted to employees and outstanding shares not yet granted to employees as of 31 December 2006 were 1,817,903 ( 31 December 2005 - 2,115,749).

## 17 Statutory reserve

In line with the provisions of the UAE Federal Commercial Companies Law No. (8) of 1984, (as amended) and the Company's articles of association, the Company is required to transfer annually to a statutory reserve account an amount equivalent to 10% of its net profit, until such reserve reaches 50% of the share capital of the Company. The statutory reserve is not available for distribution.

## 18 Revaluation reserve

Revaluation reserve represents the reserve that arose on valuation of cost of land that was granted by the Government of Abu Dhabi for the construction of the head office building (note 12).

## 19 Proposed dividend

The Board of Directors have proposed a cash dividend for the year of AED 100,000,000 (2005 – AED - Nil) representing 50% of the share capital for distribution to the Shareholders.

## 20 Convertible bonds

At the Extraordinary General Meeting held on 22 February 2006, the shareholders of the Company approved the issuance of interest-free convertible bonds for an amount of AED 20 million. During the year the Company issued these bonds, which are convertible into equity shares at AED 1.02 per share. The Company has been notified of the intention to convert within the convertible period which extends from 12 March 2007 to 10 December 2010.

## 21 Commitments and contingent liabilities

The Company has the following commitments and contingent liabilities:

| | **31 December 2006** | 31 December 2005 |
|---|---|---|
| | **AED'000** | AED'000 |
| Letters of credit | **641** | - |
| Letters of guarantee | **64,690** | 36,000 |
| Capital commitment | **9,770** | 11,937 |
| Irrevocable commitments to extend credit | **7,186** | - |
| | **82,287** | 47,937 |

## 22 Realised gain on disposal of investments available for sale

| | **Year ended 31 December 2006** | Period ended 31 December 2005 |
|---|---|---|
| | **AED'000** | AED'000 |
| Sales proceeds from disposal | **570,526** | 560,421 |
| Cost of shares disposed | **(333,301)** | (305,621) |
| | **237,225** | 254,800 |
| Less: Finance cost on acquisition of shares | **(64,240)** | (55,000) |
| Net realised gain | **172,985** | 199,800 |

## 23 General and administrative expenses

| | Year ended 31 December 2006 AED'000 | Period ended 31 December 2005 AED'000 |
|---|---|---|
| Salaries and employee related expenses | **21,611** | 51,733 |
| Advertising and promotion | **5,031** | 5,121 |
| Professional fees | **1,997** | 4,468 |
| Rent | **2,863** | 1,905 |
| Others | **7,578** | 10,569 |
| | **39,080** | 73,796 |

## 24 Basic earnings per share

Basic earnings per share are calculated by dividing the net profit for the year/period by the weighted average number of shares outstanding during the year/period as follows:

| | Year ended 31 December 2006 AED'000 | Period ended 31 December 2005 AED'000 |
|---|---|---|
| Net profit for the year/period (AED'000) | **160,604** | 190,454 |
| Weighted number of ordinary shares in issue throughout the year/period (000's) | **201,096** | 200,000 |
| Basic earnings per share (AED) | **0.80** | 0.95 |

The weighted number of ordinary shares in issue throughout the year ended 31 December 2006 has been calculated after including the convertible bond issue during the year (note 20). The undiluted earnings per share excluding the convertible bond issue, calculated on the 200,000,000 ordinary shares in issue throughout the year is AED 0.803.

## 25 Cash and cash equivalents

| | 31 December 2006 AED'000 | 31 December 2005 AED'000 |
|---|---|---|
| Deposits and balances due from banks | **373,716** | 230,380 |
| Cash | **667** | 100 |
| | **374,383** | 230,480 |
| Deposits and balances due to banks | **(150,000)** | (77,122) |
| | **224,383** | 153,358 |

## 26 Related party transactions

In the ordinary course of business, the Company enters into transactions with major shareholders, directors, senior management and their related concerns at commercial interest and commission rates.

The year/period-end balances in respect of related parties included in the balance sheet are as follows:

| | **31 December 2006** | 31 December 2005 |
|---|---|---|
| | **AED'000** | AED'000 |
| *Loans and advances to customers* | | |
| To associates | **675** | 21,187 |
| To key management staff | **1,044** | - |
| *Customers' deposits* | | |
| From associates | **12,539** | 32,020 |
| From others | **28,643** | 41,100 |

Contingent liabilities (note 21) includes a letter of guarantee issued by a bank on behalf of an associate amounting to AED 2 million (31 December 2005 - AED 1 million).

Significant transactions with related parties during the year/period were as follows:

| | **Year ended 31 December 2006** | Period ended 31 December 2005 |
|---|---|---|
| | **AED'000** | AED'000 |
| *Interest and commission income* | | |
| From associates | 153 | 115 |
| From key management staff | 9 | - |
| *Interest expenses* | | |
| Incurred on associates | 456 | 334 |
| From others | 159 | - |
| *Key management remuneration* | | |
| Short term benefits (salaries, benefits and bonuses) | 8,635 | 33,733 |
| Share based payments | 285 | 1,062 |

## 27 Segmental information

### Primary segment information

For operating purposes, the Company is organised into two major business segments:

(i) Commercial and Retail Financing, which principally provides loans and other credit facilities for institutional and individual customers and (ii) Investment, which involves the management of the Company's investment portfolio and its treasury activities. These segments are the basis on which the Company reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds.

Segmental information for the year ended 31 December 2006 is as follows:

| | Commercial and retail financing | Investment | Others | Total |
|---|---|---|---|---|
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Operating income | 37,264 | 178,806 | - | 216,070 |
| Segmental result and profit from operations | 20,363 | 140,241 | - | 160,604 |
| **Other information:** | | | | |
| Segmental assets | 770,446 | 544,553 | - | 1,314,999 |
| Segmental liabilities | 590,661 | - | - | 590,661 |
| Equity | - | - | 724,338 | 724,338 |
| Capital expenditure | 3,506 | - | - | 3,506 |
| Depreciation expense during the year | 4,380 | - | - | 4,380 |
| Investments in associates during the year | - | 7,841 | - | 7,841 |
| Share of profits of associates during the year | - | 1,450 | - | 1,450 |

Segmental information for the period from inception to 31 December 2005 was as follows:

| | Commercial and retail financing | Investment | Others | Total |
|---|---|---|---|---|
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Operating income | 58,828 | 215,452 | - | 274,280 |
| Segmental result and profit from operations | 20,007 | 170,447 | - | 190,454 |
| **Other information:** | | | | |
| Segmental assets | 439,410 | 619,376 | - | 1,058,786 |
| Segmental liabilities | 250,564 | - | - | 250,564 |
| Equity | - | - | 808,222 | 808,222 |
| Capital expenditure | 34,723 | - | - | 34,723 |
| Depreciation expense during the period | 2,241 | - | - | 2,241 |
| Investments in associates | - | 1,200 | - | 1,200 |
| Share of profits of associates during the period | - | 1,536 | - | 1,536 |

## 27 Segmental information (continued)

### Secondary segment information

Although the Company is organised primarily into business segments, the Company operates in two geographic markets. The United Arab Emirates which is designated as Domestic and represent the operations of the Company which originate from the UAE and International which represents the operations of the Company which originate from Sultanate of Oman, State of Qatar and Egypt. The following table shows the distribution of the Company's operating income, total assets, total liabilities and capital expenditure by geographical segment for the year ended 31 December 2006:

| | Domestic AED'000 | International AED'000 | Total AED'000 |
|---|---|---|---|
| Operating income | 212,160 | 3,910 | 216,070 |
| Net profit for the year | 157,982 | 2,622 | 160,604 |
| Segmental assets | 1,173,319 | 141,680 | 1,314,999 |
| Segmental liabilities | 590,661 | - | 590,661 |
| Equity | 724,338 | - | 724,338 |
| Capital expenditure | 3,506 | - | 3,506 |

Secondary segmental information for the previous period ended 31 December 2005 was as follows:

| | Domestic AED'000 | International AED'000 | Total AED'000 |
|---|---|---|---|
| Operating income | 268,753 | 5,527 | 274,280 |
| Net profit for the period | 186,319 | 4,135 | 190,454 |
| Segmental assets | 1,050,899 | 7,887 | 1,058,786 |
| Segmental liabilities | 250,564 | - | 250,564 |
| Equity | 808,222 | - | 808,222 |
| Capital expenditure | 14,723 | - | 14,723 |

(continued)

## 28 Concentration of assets, liabilities and off balance sheet items

The distribution of assets, liabilities and off balance sheet items by geographic region and industry sector was as follows:

| | 31 December 2006 | | | 31 December 2005 | | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities and equity | Off balance sheet items | Assets | Liabilities and equity | Off balance sheet items |
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| **Geographic region** | | | | | | |
| Domestic (UAE) | 1,173,319 | 1,314,999 | 82,287 | 1,050,899 | 1,058,786 | 47,937 |
| International | 141,680 | - | - | 7,887 | - | - |
| **Total** | 1,314,999 | 1,314,999 | 82,287 | 1,058,786 | 1,058,786 | 47,937 |
| **Industry sector** | | | | | | |
| Commercial & business | 855,443 | 1,164,999 | 82,287 | 798,650 | 981,664 | 47,937 |
| Retail and personal | 85,840 | - | - | 29,756 | - | - |
| Banks and financial institutions | 373,716 | 150,000 | - | 230,380 | 77,122 | - |
| **Total** | 1,314,999 | 1,314,999 | 82,287 | 1,058,786 | 1,058,786 | 47,937 |

## 29 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counter-parties. In addition to monitoring credit limits, the Company manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Company may also close out transactions or assign them to other counter-parties to mitigate credit risk.

Concentration of credit risk arises when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location.

The Company seeks to manage its credit risk exposure through diversification of its lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

The amount that best represents its maximum credit risk exposure at the balance sheet date, without taking account of the fair value of any collateral, in the event counter parties fail to perform their obligations under financial instruments generally approximates their carrying value.

## 30 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or repriced in a given period. The Company manages this risk by matching the repricing of assets and liabilities through risk management strategies.

A substantial majority of the Company's assets and liabilities are repriced within one year. Accordingly, there is limited exposure to interest rate risk.

Financial assets that are subject to fair value interest rate risk are the ones with a fixed interest rate. Certain fixed rated loans and advances and investments available for sale fall under this category.

Financial assets and liabilities exposed to cash flow interest rate risk are the ones with floating interest rate. A significant portion of the Company's loans and advances, customer deposits, dues from banks, and dues to banks, fall under this category.

Financial assets that are not subject to any fair value or cash flow interest rate risk mainly comprise investment in equity instruments.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

(continued)

## 30 Interest rate risk (continued)

The Company's interest sensitivity position based on contractual repricing arrangements at 31 December 2006 was as follows:

| | Effective rate | Less than 3 months | 3 months to less than 6 months | 6 months to less than 1 year | 1 year to less than 3 years | Over 3 years | Non-interest bearing items | Total |
|---|---|---|---|---|---|---|---|---|
| | | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| **Assets** | | | | | | | | |
| Cash balances | | - | - | - | - | - | 667 | 667 |
| Deposits and balances due from banks | 6.05 | 373,716 | - | - | - | - | | 373,716 |
| Investments held for trading | | - | - | - | - | - | 4,178 | 4,178 |
| Investments available for sale | | - | - | - | - | - | 519,533 | 519,533 |
| Loans and advances | 11.76 | 337,331 | 11,962 | 18 | 19,178 | - | (19,795) | 348,694 |
| Investment in associates | | - | - | - | - | - | 20,076 | 20,076 |
| Other investment | | - | - | - | - | - | - | - |
| Interest receivable and other assets | | - | - | - | - | - | 17,296 | 17,296 |
| Property, fixtures and equipment, net | | - | - | - | - | - | 30,839 | 30,839 |
| **Total assets** | | **711,047** | **11,962** | **18** | **19,178** | **-** | **572,794** | **1,314,999** |
| **Liabilities and Equity** | | | | | | | | |
| Deposits and balances due to banks | 5.48 | 150,000 | - | - | - | - | - | 150,000 |
| Customers' deposits | 5.62 | 401,330 | 2,581 | 624 | - | - | - | 404,535 |
| Interest payable and other liabilities | | - | - | - | - | - | 36,126 | 36,126 |
| Equity | | - | - | - | - | - | 724,338 | 724,338 |
| **Total liabilities and equity** | | **551,330** | **2,581** | **624** | **-** | **-** | **760,464** | **1,314,999** |
| **On-balance sheet gap** | | **159,717** | **9,381** | **(606)** | **19,178** | **-** | **(187,670)** | **-** |
| **Cumulative interest rate sensitivity gap** | | **159,717** | **169,098** | **168,492** | **187,670** | **187,670** | **-** | **-** |

Available for sale investment includes interest bearing securities amounting to AED 31.2 million (31 December 2005- AED Nil) carrying effective interest rate of 7 to 10% per annum.

## 30 Interest rate risk (continued)

The Company's interest sensitivity position based on contractual repricing arrangements at 31 December 2005 was as follows:

| | Effective rate | Less than 3 months | 3 months to less than 6 months | 6 months to less than 1 year | 1 year to less than 3 years | Over 3 years | Non-interest bearing items | Total |
|---|---|---|---|---|---|---|---|---|
| | | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| **Assets** | | | | | | | | |
| Cash balances | | - | - | - | - | - | 100 | 100 |
| Deposits and balances due from banks | 5.08 | 230,380 | - | - | - | - | - | 230,380 |
| Investments held for trading | | - | - | - | - | - | 4,279 | 4,279 |
| Investments available for sale | | - | - | - | - | - | 604,312 | 604,312 |
| Loans and advances | 10.61 | 55,695 | 24,255 | 23,389 | 63,780 | 6,452 | (7,789) | 165,782 |
| Investment in an associate | | - | - | - | - | - | 2,736 | 2,736 |
| Other investment | | - | - | - | - | - | 8,049 | 8,049 |
| Interest receivable and other assets | | - | - | - | - | - | 10,973 | 10,973 |
| Property, fixtures and equipment, net | | - | - | - | - | - | 32,175 | 32,175 |
| **Total assets** | | **286,075** | **24,255** | **23,389** | **63,780** | **6,452** | **654,835** | **1,058,786** |
| **Liabilities and Equity** | | | | | | | | |
| Deposits and balances due to banks | 4.87 | 77,122 | - | - | - | - | - | 77,122 |
| Customers' deposits | 4.65 | 124,392 | 1,500 | 600 | - | - | - | 126,492 |
| Interest payable and other liabilities | | - | - | - | - | - | 46,950 | 46,950 |
| Equity | | - | - | - | - | - | 808,222 | 808,222 |
| **Total liabilities and equity** | | **201,514** | **1,500** | **600** | **-** | **-** | **855,172** | **1,058,786** |
| **On-balance sheet gap** | | **84,561** | **22,755** | **22,789** | **63,780** | **6,452** | **(200,337)** | **-** |
| **Cumulative interest rate sensitivity gap** | | **84,561** | **107,316** | **130,105** | **193,885** | **200,337** | **-** | **-** |

## 31 Liquidity risk

Liquidity risk is the risk that an institution will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, management have diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

The table below summarises the maturity profile of the Company's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take into account the effective maturities as indicated by the Company's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the balance sheet date based on contractual repayment arrangements was as follows:

| | Total | Less than 3 months | 3 months to less than 6 months | 6 months to less than 1 year | 1 year to less than 3 years | 3 years to less than 5 years | Over 5 years |
|---|---|---|---|---|---|---|---|
| | | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| **Assets** | | | | | | | |
| Cash balances | 667 | 667 | - | - | - | - | - |
| Deposits and balances due from banks | 373,716 | 373,716 | - | - | - | - | - |
| Investments held for trading | 4,178 | 4,178 | - | - | - | - | - |
| Investments available for sale | 519,533 | 519,533 | - | - | - | - | - |
| Loans and advances | 348,694 | 175,355 | 22,480 | 48,575 | 49,491 | 42,571 | 10,222 |
| Investment in associates | 20,076 | - | - | - | 20,076 | - | - |
| Interest receivable and other assets | 17,296 | 17,296 | - | - | - | - | - |
| Property, fixtures and equipment, net | 30,839 | - | - | - | - | 10,839 | 20,000 |
| **Total assets** | **1,314,999** | **1,090,745** | **22,480** | **48,575** | **69,567** | **53,410** | **30,222** |
| **Liabilities and Equity** | | | | | | | |
| Deposits and balances due to banks | 150,000 | 150,000 | - | - | - | - | - |
| Customers' deposits | 404,535 | 401,330 | 2,581 | 624 | - | - | - |
| Interest payable and other liabilities | 36,126 | 15,706 | - | 20,420 | - | - | - |
| Equity | 724,338 | - | - | - | - | - | 724,338 |
| **Total liabilities and equity** | **1,314,999** | **567,036** | **2,581** | **21,044** | **-** | **-** | **724,338** |

Investments held for trading are assumed to be immediately realisable. Maturities of other assets and liabilities have been determined on the basis of the period remaining at the balance sheet date to the contractual maturity date.

## 31 Liquidity risk (continued)

The maturity profile of the assets and liabilities at December 31, 2005 was as follows:

| | Total | Less than 3 months | 3 months to less than 6 months | 6 months to less than 1 year | 1 year to less than 3 years | 3 years to less than 5 years | Over 5 years |
|---|---|---|---|---|---|---|---|
| | | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| **Assets** | | | | | | | |
| Cash balances | 100 | 100 | - | - | - | - | - |
| Deposits and balances due from banks | 230,380 | 230,380 | - | - | - | - | - |
| Investments held for trading | 4,279 | 4,279 | - | - | - | - | - |
| Investments available for sale | 604,312 | 604,312 | - | - | - | - | - |
| Loans and advances | 165,782 | 165,782 | - | - | - | - | - |
| Investment in an associate | 2,736 | - | - | - | 2,736 | - | - |
| Other investment | 8,049 | - | - | - | 8,049 | - | - |
| Interest receivable and other assets | 10,973 | 10,973 | - | - | - | - | - |
| Property, fixtures and equipment, net | 32,175 | - | - | - | - | - | 32,175 |
| **Total assets** | **1,058,786** | **1,015,826** | **-** | **-** | **10,785** | **-** | **32,175** |
| **Liabilities and Equity** | | | | | | | |
| Deposits and balances due to banks | 77,122 | 77,122 | - | - | - | - | - |
| Customers' deposits | 126,492 | 124,392 | 1,500 | 600 | - | - | - |
| Interest payable and other liabilities | 46,950 | 5,849 | - | 41,101 | - | - | - |
| Equity | 808,222 | - | - | - | - | - | 808,222 |
| **Total liabilities and equity** | **1,058,786** | **207,363** | **1,500** | **41,701** | **-** | **-** | **808,222** |

Investments held for trading are assumed to be immediately realisable. Maturities of other assets and liabilities have been determined on the basis of the period remaining at the balance sheet date to the contractual maturity date.

## 32 Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Company is exposed to market risk with respect to its investments in quoted marketable securities. The Company limits market risks by maintaining a diversified portfolio and by the continuous monitoring of developments in the market. In addition, the Company actively monitors the key factors that affect stock and the market movements, including analysis of the operational and financial performance of investees.

## 33 Currency risk

The Company did not have any significant exposure to currency risk as most of its assets are denominated in Dirhams or in US Dollars which is pegged to the UAE Dirham.

## 34 Fair value of financial instruments

In the ordinary course of business, the Company uses primary financial instruments such as cash and bank balances, investments in securities and loans and advances. The Company does not make use of derivative financial instruments.

While the Company prepares its financial statements under the historical cost convention modified for measurement to fair value of investments held for trading and investments available for sale, in the opinion of management, the estimated carrying values of those financial assets and liabilities that are not carried at fair value in the financial statements are not materially different from their fair values, since assets and liabilities are either short term in nature or in the case of performing loans, frequently repriced. For impaired loans and advances, expected cash flows, including anticipated realisation of collateral, were discounted using the original interest rates, considering the time of collection and a provision for the uncertainty of the cash flows.

## 35 Comparative figures

The current accounting period represents the financial year ended 31 December 2006. The previous accounting period represented the period from 18 July 2004 (inception) to 31 December 2005. Hence the comparative figures provided in the income statement, cash flow statement, statement of changes in equity and primary and secondary segment operational results (note 27) for previous period are not entirely comparable to current year figures.

Certain comparative figures have been regrouped to conform to current year presentation.

## 36 Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issuance in their meeting on 22 January 2007.