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

ANNUAL REPORT 2008

Special thanks to Mr. Khaled Bin Ali Al Sayegh for providing the photographs used in our Annual Report 2008. All rights for the photographs on pages 6, 7, 8, 18, 20, 26, 28, 30, 32, 34 are reserved by Mr. Khaled Bin Ali Al Sayegh.

H.H. Sheikh Khalifa Bin Zayed Al Nahyan
President of the UAE

H.H. Sheikh Mohammed Bin Rashid Al Maktoum

Vice-President and Prime Minister of the UAE, and Ruler of Dubai

H.H. General Sheikh Mohammed Bin Zayed Al Nahyan

Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces

PEARLS have found their way into the hearts of man since the early days of civilization. Eliciting a mystique charm, the pearl is symbolic of both hardship and fulfilment. It reflects our search for the sublime, our strength and perseverance.

We salute the unyielding determination of the divers who brave bitter conditions in search of the elusive, yet precious pearl. We draw inspiration from their concerted efforts and sense of sharing. Their pursuit is as precious as the pearl itself.

Finance House is proud to explore analogous associations with the pearl. Its shimmering multilayers in myriad hues resemble our diverse departments; creative, transparent and complementing each other. Its purity is reminiscent of our inherent values, honest objectives and qualitative excellence. And, the magic touch of the Mother of Pearl, the reason behind the miracle, embodies our resources, our tenacity and our unique capabilities to turn simple business ideas and opportunities into pearls of progress.

Late Sheikh Zayed Bin Sultan Al Nahyan,
may Allah bless his soul, observing pearls

Different colors of natural pearls

ألوان مختلفة للؤلؤ الطبيعي

Contents

Our Vision

Finance House aspires to be a leader in its domain by providing specialized financial products and services to its target markets. Our people, market knowledge and technology are the pillars on which our innovation is based so as to be head and shoulders above the crowd.

We:

- Focus on providing exceptional and personal customer service
- Aim to provide unmatchable turnaround times
- Focus on local and neighbouring markets
- Ensure that our products and services are tailor-made for our clients
- Develop our people and provide them with the opportunity to excel and prosper
- Provide high returns and growth rates for our shareholders
- Be a responsible and positive contributor to our society and environment

Mr. Mohammed Abdulla Alqubaisi

Chairman

Chairman's Statement

It is with a sense of achievement and accomplishment that I present Finance House's fourth Annual Report. 2008 turned out to be the year of reckoning for the world's financial system, with the rapid deterioration of the previous year's credit crisis into a full blown financial crisis globally, and into an acute liquidity shortage locally. In the midst of all of these crises, I am pleased to affirm that Finance House did very well on nearly all counts.

During the year we developed further on the strengths that we had built up over the past four years. Our detection of the liquidity crisis was early and our response was swift, and this has helped us weather the turbulence. The growth in the pre-crisis period was marked by restraint which enabled us obviate much of the pain that often accompanies the consolidation that typically follows such events.

Strong Performance

I summarize below the key financial outcomes of our year's actions, putting them in perspective:

- Net profit of AED 248.8 million, as against AED 202.8 million the previous year - an increase of 23%
- Earnings per share of AED 1.14 vis-à-vis AED 1.01 the previous year
- Total assets grew to AED 2.42 billion - up 12% on the previous year
- Shareholders' funds stood at AED 795 million, and this is after paying a dividend of AED 150 million during 2008, or 75 fils per share
- Loans and advances to customers rose to AED 1.15 billion, up from AED 708.2 million in 2007 - an increase of 63%
- Customer deposit balances at AED 1.08 billion as against AED 707.4 million - an increase of 52%
- Capital adequacy at year-end was a robust 37%, as against 43% a year ago
- The company has declared a cash dividend of 100% on its equity share capital.

Economic Environment

Amidst the global over-hang of the American sub-prime crisis from the previous year, the Gulf Cooperation Council economies held up rather well through the first eight months of 2008. With the rise in oil prices to record levels and with continued growth in the real estate sector, these economies were projected to grow between 4% and 14% in real GDP, with the key macro economic variables remaining very strong. Inflation, driven by shortages, rather than a liberal monetary policy, was seen as the only real worry. However, the latter part of the year presented a very different picture, with global de-leveraging of an unprecedented scale and the consequent drying up of liquidity, leading to a severe compression in asset prices. The all-round breakdown in correlation in prices across asset classes and across geographies did not spare the GCC's equity and bond markets.

Capital markets around the world lost between 25% and 94% in value as compared to the start of the year, and the UAE was no exception – Dubai Financial Market lost 72% while Abu Dhabi Securities Exchange was down by 47%.

Our Achievements

The following are some of the noteworthy developments at Finance House during 2008:

- Further enhancement of the Finance House brand, leading to better brand recognition among both retail and corporate customers
- Continued strong acceptance from corporate depositors, government institutions and banks, enabling us to top the AED 1.3 billion mark in total deposits
- We have further diversified our product suite by developing PayDay, an innovative payroll solution for businesses, together with a first-of-its-kind feature of micro-loans to employees coming within PayDay agreements
- Additionally, we created a number of innovative products for the corporate sector
- We made substantial exits from our investment portfolio in the period before the financial crisis and thereby realized substantial profits
- We secured an asset management company license from the Dubai International Financial Centre for our subsidiary, FH Capital Ltd., which is expected to offer its investors superior risk-adjusted returns on assets under its management
- We acquired a plot in a prime location within the prestigious Capital Centre development in Abu Dhabi for building the Finance House headquarters
- We continued to play our role as a responsible corporate citizen, in terms of making charitable donations to worthy causes within and outside the GCC region.

Prudence as a Business Imperative

Our three main business areas – Commercial and Corporate Finance, Retail Finance, and Treasury & Investments – continue to complement each other, together making up an integrated portfolio of activities. A stringent risk management regimen governs all business decisions, and this is amply borne out by the resilience of our loan and investment portfolios in the face of economic turbulence.

In the area of risk management, I would like to highlight in particular three of our conscious decisions. One was to hold back on residential mortgages since it did not meet our risk-reward criteria. The second was to keep ourselves liquid at all times by holding significant portions in cash or near cash assets. The third was to consistently maintain a high capital adequacy ratio. These self-imposed restraints have stood us well through the recent turbulence.

Our People

Our corporate culture is one that tends to break down silos and to build up teamwork. This fosters cross-selling and reinforces a "one company" mindset across Finance House.

As we advance into the next phase of our corporate evolution, it is important for us to take note of the growing expectations of our customers – in terms of products, service levels, and our value proposition. In order to meet these expectations we have been cultivating within the Company a tradition of continuous innovation and improvement as a means of differentiating ourselves in the marketplace. We owe it to the ingenuity of our team to have come up with unique products and solutions that precisely cater to the felt needs of our customers.

The urge to be agile sets us apart in that in itself it constitutes a competitive edge. This and other hitherto qualitative attributes are objectively measured within our performance measurement system through the Balanced Scorecard and forms a key input into the performance rewards system.

We are proud to be one of the first public companies in the UAE to have instituted share ownership among employees at all levels. This has resulted in closely aligning employees' interests with that of shareholders. We continue our efforts in growing Finance House into a world class organization and one of the best employers in the UAE.

Leading Finance House to where it is today would not have been possible but for the unfailing commitment and "can do" attitude of our staff, both of which are a source of pride and gratitude.

Looking into the Future

Our strategy has served us well thus far, and we expect to continue our cautious approach of seeking out profitable yet underserved niches in a market that is rapidly changing and increasingly getting crowded.

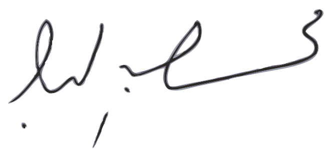
We go into 2009 with a strong capital base, a consistent business strategy, a well diversified portfolio, and with interesting opportunities being thrown up by a rapidly evolving market. We remain solidly rooted in our core business – commercial and retail finance. As a cumulative result of the strengths we have built up in the past, we stand in a good position to exploit attractive opportunities in the future. Going forward, we will be selective in looking at transactions, keeping in view the need to balance the rewards against the various risks that such opportunities may entail.

We remain optimistic about our ability to continue earning respectable results for our shareholders. Finally, we shall continue to build Finance House into an organization of strong leaders and ambitious professionals who always put the clients' interest above all others. In the ultimate analysis, this alone will ensure that the success enjoyed this far will be replicated in 2009 and beyond.

A Word of Thanks

In this vein, I would like to thank the members of our multi-talented Board of Directors who have served the institution well, especially during the recent turbulent period. I also extend my gratitude to the UAE Central Bank, the Ministry of Economy, and the Securities and Commodities Authority for their continued support. I must also add my appreciation for the support and confidence of our shareholders, especially those that have stayed with us since inception. Last, but not least, it is our customers to whom I owe the greatest gratitude.

On behalf of the Board of Directors



Mohammed Abdulla Alqubaisi
Chairman

Board of Directors


Mr. Mohammed Abdulla Alqubaisi
Chairman


Mr. Ahmad Obaid Humaid Al Mazrooei
Vice Chairman


Mr. Hamad Abdulla Rashed Al Shamsi
Member


Mr. Abdallah Ali Ibrahim Al Saadi
Member


Mr. Eisa Saif Rashid Al Qubaisi
Member


Mr. Sultan Helal Bin Drei Al Qubaisi
Member


Mr. Salem Mohamed Bin Salem Al Dhaheri
Member

Management Team


Mr. Hamid Taylor
General Manager


Mr. T.K. Raman
Chief Operating Officer


Mr. Mohammed Wassim Khayata
Executive Vice President - Strategic Planning


Mr. Ramesh S. Mahalingam
Chief Investments & Financial Officer


Mrs. Shagufta Farid
Head of Internal Audit


Ms. Lina Elaraj
Manager - General Services


Mr. Tarek Soubra
Vice President - Central Operations


Ms. Maha Al Jamal
Senior Manager - Marketing

Shaking “Al Jadaa” is a sign of pulling the diver by the “Al Seeb”

يهز الغواص "الجداء" برجله حتى يسحبه "السيب"

Financial Highlights

AED’000

	2005*	2006	2007	2008
EARNINGS				
Net interest income	36,476	33,806	39,216	90,617
Non-interest income	237,804	181,982	255,598	401,956
Total operating income	274,280	215,788	294,814	492,573
Net income	190,454	160,604	202,809	248,849
Dividend	-	100,000	150,000	100,000
Financial Position				
Total assets	1,058,786	1,313,615	2,159,660	2,423,725
Due from banks	230,380	372,800	629,098	535,742
Investments	619,376	543,787	755,349	494,973
Loans and advances (net)	165,782	348,226	708,159	1,153,378
Customer deposits	126,492	404,535	707,422	1,075,547
Due to banks	77,122	150,000	321,725	272,267
Shareholders' equity	808,222	724,338	949,467	794,687
Ratios				
Earnings				
Return on equity (%)	23.6	22.2	21.4	31.3
Return on average assets (%)	18.0	13.5	11.7	10.9
Earnings per share - Basic (AED)	0.95	0.80	1.01	1.14
Cost				
Expense to Total Operating Income (%)	27.7	20.0	22.7	22.1
Capital				
Debt to Equity- (times)	-	-	0.10	0.38
Total Liabilities to Shareholders Equity (times)	0.31	0.81	1.27	2.05
Capital Adequacy Ratio (%)	72.0	67.0	43.0	37.0
Asset				
Non-Performing Loans to Gross Loans (%)	1.7	2.9	2.0	1.9

*Covers 17 months (inception to 31 December 2005)

Different shapes and types of pearls ألوان وأحجام مختلفة للؤلؤ

Business Review

Economic and Market Review

2008 started differently in different parts of the world. While the US and Europe were still feeling the impact of the subprime crisis of the previous year, the economies of the Gulf Cooperation Council countries (GCC) started 2008 on a strong note. This was reflected in the region's strong GDP forecasts and high business confidence, both being fuelled by large government expenditure programs and private sector expansion. The source of the optimism was primarily the soaring oil price, which also translated into huge fiscal surpluses in these countries.

However, the global financial crisis has eventually caught up with the region. Elsewhere, the crisis has entered an alarming phase, with a large number of financial institutions around the world failing or having to be bailed out. Stock markets around the world have suffered significant losses. This is having a direct impact on growth worldwide, with all the G7 economies experiencing negative growth at some time during 2008. The economic outlook for these economies has deteriorated rapidly. The GCC countries cannot forever remain immune to the effects of the global economic downturn, but are much better placed than most economies to withstand the fallout.

The progressively rising severity of the financial disorder and the consequential weakening of the world economic outlook has impacted the GCC region's fiscal outlook, at least for 2009. However, what is likely to cause a greater impact is the steep drop in the prices of oil and gas which continue to be the mainstay of the region's economies. All the same, this impact is more likely to be of the order of a slowdown rather than a recession as in the case of several of the G7 countries.

Nevertheless, the tight liquidity situation and the ensuing high interest rates took the markets by surprise and set off a number of credit related events in the economies of the region, albeit to varying degrees. We believe these events have yet to play themselves out fully.

Here in the UAE, they have had the effect of increasing costs of borrowing steeply and have put a strain on the financial sector's ability to keep commerce and industry funded for their normal operations. Numerous expansion and diversification plans are being put on hold.

Despite this scenario, at Finance House, we managed to boost our profitability and in the current circumstances, more importantly, maintain our liquidity at very comfortable levels. Our prudent fiscal management and our manageable size are the two key factors that have helped us in withstanding the turbulence.

Amid this swift change in the financial landscape of the country, credit quality has come into sharp focus, not as much for securing attractive pricing but for securing finance in the first place. Solid corporate earnings and healthy balance sheets have become a pre-requisite for borrowing in this tough credit environment.

The slowdown in consumer lending reflects the cautious approach of the industry, with widespread job losses underscoring the need for caution in addressing this market segment.

Commercial and Corporate Finance

The strategy in this business segment is to build a robust portfolio of high quality corporate entities by leveraging the long-established relationships within the UAE's business community, and by providing structured financial solutions to such clients, for their funded and unfunded requirements. While our credit process is rigorous, what sets us apart is our faster processing cycle which results in quicker response to our clients.

Our efforts to build the commercial loans portfolio continued through 2008, as we took significant strides in adding to our core assets. During the year we strengthened the relationship teams in both Abu Dhabi and Dubai to service clients better. The Company is able to customize solutions to meet the unique requirements of each client due to its wide product offering, which includes letters of credit, letters of guarantee, trust receipts, discounting of bills and cheques, clean overdraft facilities, equipment finance, contractor finance, project finance, micro finance for small businesses, syndicated loans and IPO subscription finance among others.

A great deal of emphasis is placed on constant development of staff, as management believes that better knowledge is critical to continued business growth for the Company and career progression for individuals.

Notably, in 2008,

- We grew the size of our commercial loans portfolio by 68% during the year, to reach AED 978 million by year-end
- we completed several bridge finance transactions, with maturities of up to twelve months
- we expanded our non-funded portfolio with a steady increase in the flow of letters of credit, bid bonds, performance bonds and payment guarantees
- we promoted our innovative and value-added product, the Smart Guarantee, that addresses a gap in the market for issuance of labour guarantees.

Retail Finance

The objective of our retail finance is to develop compelling product propositions aimed at niche customer segments that are underserved. Our focus is on designing products with outstanding value addition that are consistently better than competitive offers in the market, while keeping our cost of acquisition of new business low, and at the same time maintaining credit-quality and portfolio profitability. Each of the Company's retail finance products - Credit Card, Executive Finance, Auto Finance, Home Finance, Payday Overdraft, and Payday Loan - is designed for the value conscious customer.

The early part of 2008 saw the emergence of greater competition with more players entering the consumer finance arena and several existing players sharpening their sights onto this space. However, this trend dissipated towards the last quarter as the liquidity crunch saw many lenders, banks and finance companies alike, placing restraints on approvals of fresh loans and disbursals of previously sanctioned loans.

As part of our distinctive suite of products, and based on sound market research, we have developed Payday, an innovative blue-collar payroll solution for businesses.

A key element of our retail finance strategy was to hold back on the home mortgage finance product as it did not meet our risk-reward criteria. Consequently, our total funded exposure to this product at year-end is no more than AED 51 million, almost entirely comprising Abu Dhabi residential mortgages that were funded at 2007 prices. Besides, we did not finance any premium component included in the property purchase price.

Our credit card portfolio experienced steady growth with the introduction of several new value added features such as very attractive cashback programs on enrolment and on cardholder spends, as well as paid subscriptions of monetary value.

Executive Finance, our personal finance product for middle and upper-salaried segments, was very well received and continued to grow at a steady pace into a well-performing portfolio.

During the year we further strengthened our retail sales capabilities through targeted recruitments. Other initiatives included arrangements made to strengthen systematic follow-up and collection of customer dues, and addition of new cash collection points for customers to settle their monthly credit card bills.

Investments

Since inception, Finance House has been building up a well-diversified proprietary portfolio consisting of multiple asset classes. These investments have yielded handsome returns year after year, chiefly in the form of capital appreciation, realised and unrealised. Investments were mainly restricted to the first half of the year, and included a private equity investment in acquiring a company in the construction sector in Abu Dhabi.

During 2008 we had made substantial and profitable exits prior to the onset of the crisis, both in listed and unlisted equities. Of the unsold portion, the quoted segment to a certain extent reflects the steep decline in the regional stock markets, while our private equity investments showed strong operational performance overall, the majority of them being investments in enduring industry sectors.

Towards the end of 2008, we were granted a license to set up a company to carry out investment and asset management activities under the jurisdiction of the Dubai International Financial Centre. This entity is set to complement the product offerings of Finance House and in turn supplement our revenue streams.

Treasury

The Company finances its operations with a judicious mix of internally generated resources, deposits from corporate, government and institutional depositors, and to a lesser extent, term facilities provided by banks, and are mainly denominated in UAE Dirhams and US Dollars. The interest rates charged on most of these are by reference to the applicable inter-bank rates.

Throughout 2008, and more importantly, even under the tight liquidity conditions of the last quarter of the year, Finance House has been growing its customer deposits. Several institutional relationships were established, with local, regional and international institutions, resulting in the setting up of funding lines, in several cases on a reciprocal basis, for short-term and medium-term deposits. We also enhanced our correspondent banking relationships to widen our geographic coverage.

FlexiDeposit, our corporate cash management product that combines the flexibility of a call account with the earning potential of a fixed deposit, has proved quite profitable to businesses who find it an attractive alternative for deploying unutilized cash balances.

Operations

Our business is supported by robust standard operating procedures for all products, and is matched by a fast processing cycle to result in quicker response to our clients. During 2008 we further refined our processes relating to trade finance, credit administration, collection and controls on access to information. Compliance matters and anti-money laundering as well as corporate governance measures continue to receive our highest attention.

The Company is a registered member of the UAE Central Bank's electronic funds transfer system which is used for effecting receipts and payments on a real-time basis. In addition, the Company also uses its membership to the SWIFT network through closed user groups of correspondent banks to effect transfers to and from its accounts.

The Company is well supported by an independent and strong internal audit function that reports directly to the Audit Committee of the Board. The internal audit unit applies a risk-based approach to its audits, which are rigorously executed at regular intervals to ensure the integrity and robustness of all business operations.

Our close involvement with large initial public offerings in the UAE continued as in previous years.

Risk Management

At Finance House, prudence is central to our risk management process. Risk is rigorously assessed in order that it can be effectively managed. Certain credit risks are inherent in making loans, whether commercial or retail. The Company manages credit risks by rigorously adhering to internal credit policies and procedures. These policies and procedures include a multi-level loan approval process, manager limits, customer limits, country limits, periodic documentation review and follow-up procedures for any exceptions to credit policies. The Board's Investment and Credit Committee reviews every credit proposal above the threshold size and every investment proposal as part of the approval process. In keeping with UAE Central Bank guidelines, loans are assigned a grade and those that are determined to involve more than normal credit risk are placed in a special review status, and are required to have a plan under which the credit risk is brought down.

Management believes the Company has effectively managed its credit risk, going by the low level of occurrence of bad debt as a measure of asset quality. Net loan write-offs, including credit card receivables, amounted to a mere 0.01% of the average level of loans outstanding.

Furthermore, our cautious approach to risk leads us to adopt a stringent and aggressive policy of provisioning for possible impairment of loans.

We evaluate, monitor and control our sectoral exposure very closely. Our exposure to the residential mortgage market is insignificant. We also have very limited credit exposure to participants of the stock market and have carefully controlled our real estate exposure.

From a geographic perspective our exposures – loans as well as investments - have been predominantly confined to Abu Dhabi in particular and the rest of the UAE and GCC in general. We have had no exposure to US or European assets, nor have we been affected by currency fluctuations, since the majority of our exposures are in AED and nearly all of our remaining exposures are in USD and USD-pegged currencies.

In terms of liquidity, we have taken several proactive measures to remain well funded, such as raising substantial deposits of varying maturities of short- and medium-tenor, and sale of some of our investments.

Much emphasis is placed on adherence to the policies laid down, and this is monitored by our compliance and internal audit functions. It is this disciplined approach that has given us the resilience to handle the current financial crisis. To cite examples:

- We have avoided taking large exposures,
- we have kept our tenor mismatches to a minimum,
- our capital adequacy ratio is among the highest in the banking and finance industry,
- our debt-equity ratio is at very comfortable low levels.

Corporate Governance

The Board

The members of the Board, all of whom are non-executive directors, comprises prominent UAE nationals from Abu Dhabi. The Board has been instrumental in establishing a strong corporate governance culture in the Company. It plays an important role in defining and enforcing standards of accountability that enable Management to manage the Company in the best interests of its shareholders. The Board has a formal schedule of matters reserved to it and holds regular and frequent meetings. It is responsible for overall Company strategy, acquisition and divestment policy, approval of capital expenditure proposals and consideration of significant financing matters. It monitors the Company's exposure to key business risks and reviews the annual budget of the Company, and monitors its progress towards achievement of the budget. The Board also considers environmental and employee issues and key appointments.

All directors are required to submit themselves for re-election at least once every three years.

Committees of the Board

With the establishment of the Executive Committee of the Board, the Company has further strengthened its oversight of the business. The three Board Committees - the Executive Committee, the Investment Credit Committee, and the Audit Committee - between them cover all aspects of the Company's business.

“Al Karjah” is the red cloth used to keep pearls in

”الخرجة“ هي قطعة من الخام لونها أحمر تستخدم لحفظ اللؤلؤ

The Executive Committee sets and reviews all matters of administration policy, and is responsible for exercising all powers and authority of the Board except for those powers delegated to other committees of the Board and the powers that may not be delegated to a committee of the Board.

The Investment and Credit Committee reviews credit proposals, investment recommendations, and matters of credit and investment policy.

The Audit Committee regularly meets to review the reports and recommendations of the independent internal audit team and external auditors, as also to monitor compliance with the laws and regulatory requirements.

Human Resources

We believe the Management of Finance House has successfully integrated its people and its operations with the Board’s strategy in order to deliver successfully on its corporate mission. As a direct benefit of such integration, the Company has been able to develop a loyal employee base, as evidenced by the low staff turnover ratio over the past couple of years, and more notably zero turnover at the senior management level. However, continued success in this sphere calls for constantly refining our methodology, in keeping with the dynamic environment and the evolving needs of all concerned. The company’s culture will continue to be shaped by the idea of freedom and responsibility within an equitable framework, and by self-disciplined people who are prepared to go to extreme lengths to fulfill their responsibilities.

Our executive remuneration packages are carefully designed to attract, motivate and retain managers of high calibre needed to maintain the company’s leading position and to reward them for meeting business goals and thereby enhancing value to shareholders. The attraction, development and retention of UAE national human resources continue to be a prime objective for the company. Expanding communication vertically and horizontally across company staff is another goal towards which several initiatives were put in motion during 2008.

A diving boat during “Al Qfal”

سفينة الغوص أثناء "القفال"

Financial Review

Finance House’s Balance Sheet, Earnings, and Capital base continued to grow in 2008, its fourth year of operations, demonstrating the fundamental strength of the company’s business strategy.

Balance Sheet

Total Assets

Total Assets as at 31st December 2008 were AED 2.42 billion, an increase of 12% over the previous year-end, primarily due to a significant increase in the company’s loans portfolio.

Loans and Advances

Net Loans and Advances grew to AED 1.15 billion, from AED 708.2 million in 2007, constituting an increase of 63%. Year-on-year, corporate and commercial finance grew 58%, while retail loans rose 82%. Both categories of loans carry a high credit quality, as evidenced by the low levels of non-performing loans. Notwithstanding the low level of NPAs, the company has taken cognisance of the current deterioration in credit conditions in the market, and has adopted a very prudent approach to provisioning. Accordingly, the provisions include an allowance for unidentified potential impairment of loans and stands at 5% of the total Loans and Advances.

Investments

Total investments at year-end stood at AED 495.0 million as compared to AED 755.3 million in 2007. The company’s investments are predominantly in marketable securities which have proved to be an excellent source of profitability since inception and until the recent market meltdown. During the year the company made substantial exits from investments amounting to AED 1.27 billion, realising a gross gain of AED 373.4 million. Investments made in 2008 include the acquisition of a construction company in its gestation stage in Abu Dhabi during the early part of the year. The private equity portfolio of the company is, by and large, performing very well despite the meltdown in the equity and bond markets.

Deposits

Total Deposits grew to AED 1.34 billion at the year-end, which represents a 31% increase over the previous year. Of this, AED 1.075 billion comprises deposits from corporate customers and governmental institutions, which grew 52% over the previous year’s level of AED 707 million. The remaining amount of AED 272 million consists of deposits from Banks, which fell by 15% as compared to the previous year. The term loan of AED 99 million is primarily a three-year debt secured from a regional bank.

Capital Strength

Shareholders’ Equity as at year-end amounted to AED 794.7 million, as compared to the previous year’s figure of AED 949.5 million. Within this figure, the Retained Earnings component grew to AED 433.5 million, marking an increase of 13% over the previous year’s figure of AED 384.4 million. The cumulative changes in fair value amounted to AED 1.7 million, as compared to

The "Seeb" is pulling the diver up

سحب الغواص من قبل "السيب"

AED 264.6 million the previous year, due to realisation of significant profits during the year and despite the severe drop in investment values during the last part of the year. The company's Balance Sheet reflects a very low capital gearing of 38%, a testimony to its strong capital base, as also a measure of its borrowing capacity to fund its plans for future growth.

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 37%, substantially in excess of the regulatory requirement of 15%.

Income Statement

Net operating income for the year ended 31st December 2008 rose to AED 492.6 million, which represents an increase of 67% over the previous year's figure of AED 294.8 million. Similarly, the net profit for 2008 rose to AED 248.8 million, a growth of 23% over the previous year's figure of AED 202.8 million. Earnings per share amounted to AED 1.14 in 2008 as against a corresponding figure of AED 1.01 for 2007. Return on average equity during 2008 grew to 28.5% (from 24.2% in 2007) and return on average assets amounted to 10.9% during 2008 as against 11.7% in 2007.

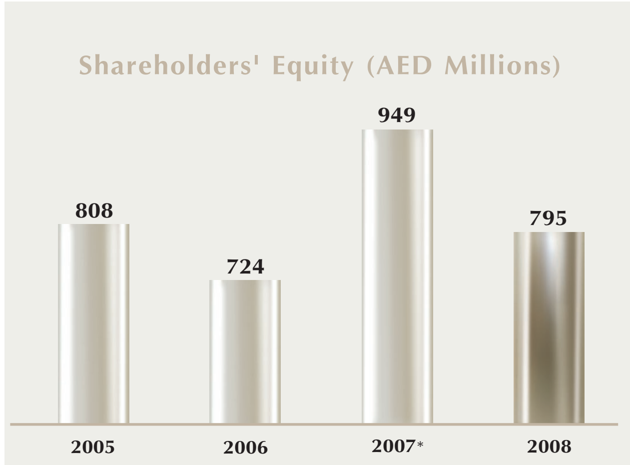
Net interest income for 2008 was AED 90.6 million, as against AED 39.2 million the previous year, the increase of 131% being the result of the growth in the loan portfolio and profitable treasury operations.

Investment income for 2008 was AED 371.7 million, an increase of 57% over the corresponding figure of AED 236.6 million for the previous year. The 2008 achievement is a result of substantial exits we made prior to the market meltdown that happened in the latter part of the year.

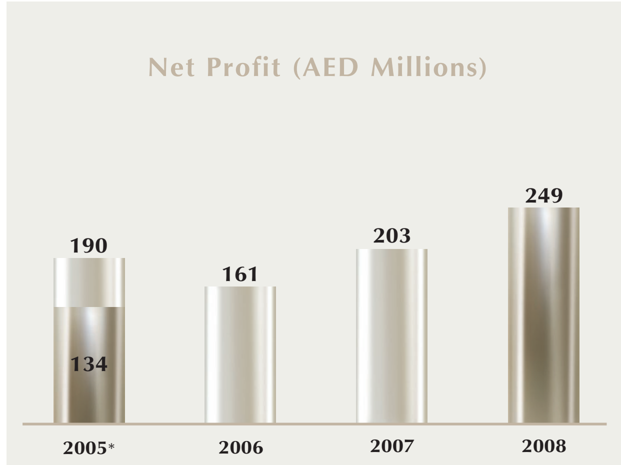
General and administrative expenses were kept under control in 2008 and amounted to 22.1% of the company's total operating income for the year, below the previous year's ratio of 22.7%. This ratio was kept under control despite the inflationary pressures on administration costs.

Sorting the pearls by size

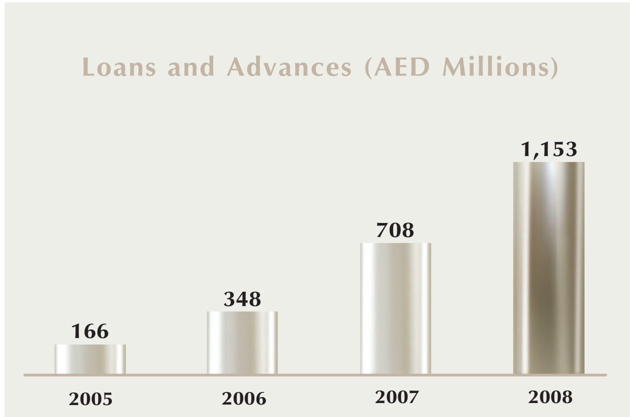
تصنيف اللؤلؤ حسب الحجم



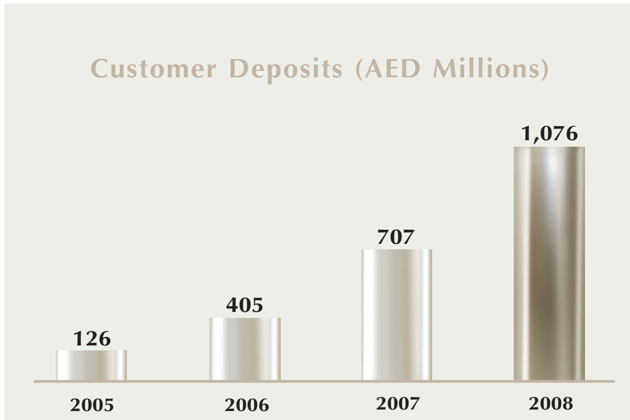
* 2007 includes AED 150 million of undistributed dividend

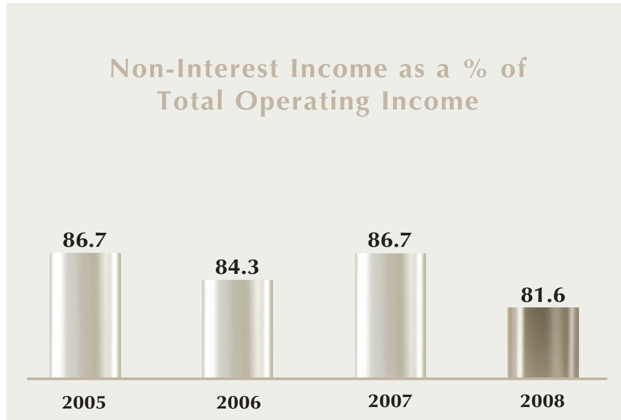


* Net Profit of AED 190 million is for 17 months; annualized to AED 134 million for comparison purposes.



* Total Operating Income of AED 274 million is for 17months; annualized to AED 194 million for comparison purposes.





Traditional pearl divers

غواصوا اللؤلؤ التقليديين

INDEPENDENT AUDITOR'S REPORT

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Finance House P.J.S.C. (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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.

INDEPENDENT AUDITOR'S REPORT (Continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, 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 consolidated 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 Group or on the results of its operations for the year.

Ahmad Nimer
Registration No. 380
19 January 2009

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FINANCE HOUSE P.J.S.C.
Consolidated balance sheet
as at 31 December 2008

	Notes	2008 AED'000	2007 AED'000
ASSETS			
Cash balances	5	**2,018**	1,186
Due from banks	5	**535,742**	629,098
Investments held for trading		**1,502**	14,876
Available for sale investments	6	**438,667**	699,232
Loans and advances, net	7	**1,153,378**	708,159
Investment in associates	8	**54,804**	41,241
Property, fixtures and equipment	9	**151,926**	30,100
Interest receivable and other assets	10	**85,688**	35,768
Total assets		**2,423,725**	2,159,660
LIABILITIES AND EQUITY			
Liabilities			
Customers' deposits	11	**1,075,547**	707,422
Due to banks	5	**272,267**	321,725
Term loan		**99,195**	91,813
Interest payable and other liabilities	12	**179,710**	88,211
Provision for employees' end of service benefits		**2,319**	1,022
Total liabilities		**1,629,038**	1,210,193
Equity			
Share capital	13	**220,000**	200,000
Employees share-based payment scheme	14	**(1,750)**	(1,878)
Statutory reserve	15	**80,271**	55,386
Revaluation reserve	16	**40,906**	20,000
Cumulative changes in fair values		**1,659**	264,588
Retained earnings		**420,975**	384,371
Convertible bonds	18	**-**	20,000
Proposed directors' remuneration		**21,296**	7,000
Equity attributable to equity holder of the Parent company		**783,357**	949,467
Minority interest		**11,330**	-
Total equity		**794,687**	949,467
Total liabilities and equity		**2,423,725**	2,159,660
Commitments and contingent liabilities	19	**795,757**	877,565

Mr. Mohammed Alqubaisi
Chairman

Mr. Hamid Taylor
General Manager

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

Consolidated income statement
for the year ended 31 December 2008

	Notes	2008 AED'000	2007 AED'000
Interest income		**136,318**	77,330
Interest expense		**(45,701)**	(38,114)
Net interest income	**20**	**90,617**	39,216
Fee and commission income		**29,895**	22,355
Fee and commission expense		**(10,516)**	(4,676)
Net fee and commission income	**21**	**19,379**	17,679
Contract revenue		**37,200**	-
Contract costs		**(45,172)**	-
Net contract loss		**(7,972)**	-
Net (loss)/ income from investments carried at fair value through profit or loss	**22**	**(3,688)**	6,041
Net income from available for sale investments	**23**	**385,946**	227,966
Share of profit of associates	**8**	**6,296**	2,639
Other operating income		**1,995**	1,273
Total operating income		**492,573**	294,814
Salaries and employee related expenses		**(68,805)**	(43,952)
Provision for contract losses		**(20,650)**	-
Depreciation of property, fixtures and equipment	**9**	**(6,180)**	(5,126)
Other general and administrative expenses		**(33,816)**	(17,904)
Allowance for impairment of loans and advances, net	**7**	**(97,373)**	(25,023)
Allowance for impairment of available for sale investments	**6**	**(16,900)**	-
Total operating expenses		**(243,724)**	(92,005)
Net profit for the year		**248,849**	202,809
Basic earnings per share (AED)	**24**	**AED 1.14**	AED 1.01
Diluted earnings per share (AED)	**24**	**AED 1.13**	AED 0.92

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

Consolidated statement of changes in equity
for the year ended 31 December 2008

	Share capital AED'000	Employees share-based payment scheme AED'000	Statutory reserve AED'000	Revaluation reserve AED'000	Cumulative changes in fair values AED'000	Retained earnings AED'000	Convertible bonds AED'000	Proposed directors' remuneration AED'000	Attributable to the equity holders of the parent AED'000	Minority Interest AED'000	Total AED'000
Balance at 1 January 2007	**200,000**	**(1,928)**	**35,105**	**20,000**	**138,818**	**308,843**	**20,000**	**3,500**	**724,338**	**-**	**724,338**
Increase in fair value of available for sale investments	-	-	-	-	299,040	-	-	-	299,040	-	299,040
Realised gain on sale of available for sale investments	-	-	-	-	(173,270)	-	-	-	(173,270)	-	(173,270)
Directors' remuneration paid	-	-	-	-	-	-	-	(3,500)	(3,500)	-	(3,500)
Cash dividend paid	-	-	-	-	-	(100,000)	-	-	(100,000)	-	(100,000)
Net profit for the year	-	-	-	-	-	202,809	-	-	202,809	-	202,809
Transfer to statutory reserve	-	-	20,281	-	-	(20,281)	-	-	-	-	-
Proposed directors' remuneration	-	-	-	-	-	(7,000)	-	7,000	-	-	-
Utilisation under employees share-based payment scheme	-	50	-	-	-	-	-	-	50	-	50
Balance at 1 January 2008	**200,000**	**(1,878)**	**55,386**	**20,000**	**264,588**	**384,371**	**20,000**	**7,000**	**949,467**	**-**	**949,467**
Decrease in fair value of available for sale investments	-	-	-	-	(29,053)	-	-	-	(29,053)	-	(29,053)
Realised gain on sale of available for sale investments	-	-	-	-	(233,876)	-	-	-	(233,876)	-	(233,876)
Land revaluation surplus	-	-	-	20,906	-	-	-	-	20,906	11,270	32,176
Directors' remuneration paid	-	-	-	-	-	-	-	(7,000)	(7,000)	-	(7,000)
Cash dividend paid	-	-	-	-	-	(150,000)	-	-	(150,000)	-	(150,000)
Net profit for the year	-	-	-	-	-	248,849	-	-	248,849	-	248,849
Acquisition of subsidiaries	-	-	-	-	-	(16,064)	-	-	(16,064)	-	(16,064)
Transfer to statutory reserve	-	-	24,885	-	-	(24,885)	-	-	-	-	-
Proposed directors' remuneration	-	-	-	-	-	(21,296)	-	21,296	-	-	-
Utilisation under employees share-based payment scheme	-	128	-	-	-	-	-	-	128	-	128
Conversion of convertible bonds	20,000	-	-	-	-	-	(20,000)	-	-	-	-
Minority interest	-	-	-	-	-	-	-	-	-	60	60
Balance at 31 December 2008	**220,000**	**(1,750)**	**80,271**	**40,906**	**1,659**	**420,975**	**-**	**21,296**	**783,357**	**11,330**	**794,687**

Revaluation reserve represents a reserve that arose on valuation of land in 2005 that was granted by the Government of Abu Dhabi free of cost. The Group intends to build its new premises on this land.
The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2008

	Note	2008 AED'000	2007 AED'000
Operating activities			
Net profit for the year		**248,849**	202,809
Adjustments for:			
Depreciation of property, fixtures and equipment		**6,180**	5,126
Distribution of shares under employees share-based payment		**128**	50
Dividend income		**(13,599)**	(10,730)
Realised gain on disposal of investments held for trading		**(707)**	(1,491)
Realised gain on disposal of available for sale investments, net		**(372,677)**	(217,431)
Unrealised loss/(gain) on revaluation of investments held for trading		**4,725**	(4,355)
Share of profit of associates		**(6,296)**	(2,639)
Provision for contract losses		**20,650**	-
Allowance for impairment of loans and advances		**97,373**	25,023
Allowance for impairment of available for sale Investments		**16,900**	-
Net movement in provision for employees' end of service benefits		**1,297**	406
Accumulated profit on acquisition of subsidiaries		**(16,064)**	-
Operating profit before changes in operating assets and liabilities		**(13,241)**	(3,232)
Decrease in due from banks maturing after three months		**140,000**	(140,000)
Purchase of investments held for trading		**(12,986)**	(24,498)
Proceeds from sale of investments held for trading		**22,342**	19,646
Increase in loans and advances		**(542,592)**	(384,956)
Increase in due to banks maturing after three months		**38,275**	231,725
Increase in term loan		**7,382**	91,813
Increase in interest receivable and other assets		**(49,920)**	(18,472)
Increase in customers' deposits		**368,125**	302,887
Increase in interest payable and other liabilities (net of provision for contract losses)		**70,849**	54,085
Net cash from operating activities		**28,234**	128,998
Investing activities			
Proceeds from disposal of available for sale investments		**1,251,119**	640,830
Purchase of available for sale investments		**(868,143)**	(474,320)
Finance cost incurred on acquisition of available for sale investments		**(29,563)**	(3,008)
Addition of property, fixtures and equipment		**(107,100)**	(4,387)
Investment in associates		**(8,540)**	(21,658)
Dividend income received		**14,872**	13,862
Net cash received from investing activities		**252,645**	151,319
Financing activities			
Directors' remuneration paid		**(7,000)**	(3,500)
Cash dividend paid		**(150,000)**	(100,000)
Minority interest		**11,330**	-
Net cash used in financing activities		**(145,670)**	(103,500)
Net increase in cash and cash equivalents		**135,209**	176,817
Cash and cash equivalents at beginning of the year		**400,284**	223,467
Cash and cash equivalents at the end of the year	5	**535,493**	400,284

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

Notes to the consolidated financial statements
for the year ended 31 December 2008

1 General information

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 the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended), the UAE Central Bank, the Monetary System and Organization 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 commenced its operations on 18 July 2004. The Company performs its activities through its head office in Abu Dhabi and its Abu Dhabi and Dubai branches. The principal activities of the Company consist of investments, consumer and commercial financing and other related services.

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

The accompanying consolidated financial statements are comprised of the financial statements of the Company and its subsidiaries (together referred to as "the Group"). The details of the Company's subsidiaries and their principal activities are as follows:

Name of subsidiary	Country of incorporation	Ownership interest %	Principal activity
Third Vision Investment L.L.C.	UAE	60	Own and manage head office premises
Benyan Development Co. L.L.C	UAE	100	Real estate construction
Emirates National Electromechanical L.L.C	UAE	100	Electromechanical contracting
FH Capital Limited	UAE	25	Investment and asset management

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

2 Adoption of new and revised Standards

Three interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) effective for the current period are as follows:

- IFRIC 11 IFRS 2 *Group and Treasury Share Transactions*
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 14 IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their interaction.*

2 Adoption of new and revised Standards (continued)

The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

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

New Standards and Amendment to Standards:

• IAS 1 (revised) *Presentation of Financial Statements*	Effective for annual periods beginning on or after 1 January 2009
• IAS 1 (revised) *Presentation of Financial Statements and IAS 32 (revised) Financial Instruments: Presentation - Amendments relating to puttable instruments and obligations arising on liquidation*	Effective for annual periods beginning on or after 1 January 2009
• IAS 23 (revised) Borrowing Costs	Effective for annual periods beginning on or after 1 January 2009
• IAS 32 (revised) *Financial Instruments- Amendments relating to disclosure of puttable instruments and obligations arising on liquidation*	Effective for annual periods beginning on or after 1 January 2009
• IAS 39 (revised) *Financial Instruments: Recognition and Measurement- Amendments for eligible hedged items*	Effective for annual periods beginning on or after 1 July 2009
• IFRS 1 (revised) *First time Adoption of IFRS and* IAS 27 (revised) *Consolidated and Separate Financial Statements – Amendment relating to cost of an investment on first time adoption*	Effective for annual periods beginning on or after 1 January 2009
• IFRS 2 (revised) *Share-based payment –Amendment relating to vesting conditions and cancellations*	Effective for annual periods beginning on or after 1 January 2009
• IFRS 3 (revised) *Business Combinations – Comprehensive revision on applying the acquisition method and consequential amendments to* IAS 27 (revised) *Consolidated and Separate Financial Statements,* IAS 28 (revised) *Investments in Associates and* IAS 31 (revised) *Interests in Joint Ventures*	Effective for annual periods beginning on or after 1 July 2009
• IFRS 8 *Operating Segments*	Effective for annual periods beginning on or after 1 January 2009

2 Adoption of new and revised Standards (continued)

• Amendments to IFRS 5, IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41 resulting from the May and October 2008 Annual Improvements to IFRSs	Effective for annual periods beginning on or after 1 January 2009

New Interpretations:

• IFRIC 13 Customer Loyalty Programmes	Effective for annual periods beginning on or after 1 July 2008
• IFRIC 15 Agreements for the Construction of Real Estate	Effective for annual periods beginning on or after 1 January 2009
• IFRIC 16 Hedges of a Net Investment in a Foreign Operation	Effective for annual periods beginning on or after 1 October 2008
• IFRIC 17 Distributions of Non-cash Assets to Owners	Effective for annual periods beginning on or after 1 July 2009

The directors anticipate the adoption of those Standards and Interpretations in future periods will have no material impact on the financial statements of the Group in the period of initial application.

3 Significant accounting policies

Basis of preparation

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

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

Basis of consolidation

The consolidated financial statements incorporate the consolidated financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

3 Significant accounting policies (continued)

Basis of consolidation (continued)

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group, except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Investment in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

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

Property, fixtures and equipment

Freehold land granted by the Government of the Emirate of Abu Dhabi is carried at the professionally valued amount. Freehold land is not depreciated.

Furniture, fixtures and equipment, motor vehicles, computer hardware and software are stated at cost less accumulated depreciation, and accumulated impairment loss, if any.

Cost includes purchase cost and any incidental expenses of acquisition including professional fees.

Properties in the course of construction for administrative purposes or for purposes not yet determined, are carried at cost, less any recognised impairment loss.

3 Significant accounting policies (continued)

Property, fixtures and equipment (continued)

Depreciation is charged so as to write off the cost of assets, other than freehold 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 estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in consolidated income statement.

Impairment of tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible 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).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated income statement. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in consolidated income statement.

Employees' end of service benefits

Provision is made for estimated amounts required to cover employees' end of service benefits at the consolidated balance sheet date as per U.A.E. Labour Law.

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

3 Significant accounting policies (continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Foreign currencies

Transactions in currencies other than UAE Dirhams are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing at the consolidated balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in consolidated income statement in the period in which they arise.

Interest

Interest income and expense are recognized in the consolidated income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

3 Significant accounting policies (continued)

Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Success-based fees are recognised when the success is reliably established.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

Dividend income

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of either net income from investments carried at fair value through profit or loss or net income from available for sale investments, based on the underlying classification of the equity instrument.

Net income from investments carried at fair value through profit or loss

Net income from investments carried at fair value through profit or loss relates to investments held for trading or classified as investments carried at fair value through profit or loss on initial recognition, and includes all realised and unrealised fair value changes, dividends and foreign exchange differences.

Net income from available for sale investments

Net income from available for sale investments includes realized gains or losses on disposal of available for sale investments, dividends and foreign exchange differences.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, measured based on the surveys of work performed and completion of a physical proportion of the contracts. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

3 Significant accounting policies (continued)

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

For regular way trades, all investments are recognised and derecognised on trade date, and are initially measured at fair value plus transaction costs, except for those investments that are classified as at fair value through profit or loss, which are initially measured at fair value.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and balances with the UAE Central Bank, due from 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 acceptance.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 28.8.

3 Significant accounting policies (continued)

Financial assets (continued)

AFS financial assets

Unquoted shares and quoted shares held by the Group that are traded in an active market but not intended to be traded frequently are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 28.8. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the consolidated balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date.

For unquoted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization; or
- requirements of the Central Bank of UAE.

3 Significant accounting policies (continued)

Financial assets (continued)

For certain categories of financial assets, such as loans and advances, interest and trade receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis.

Individually assessed loans

Individually assessed loans represent mainly corporate and commercial loans which are assessed individually and classified by the 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.

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 were impaired at the balance sheet date but were not specifically identified as such as at that date. The estimated impairment is calculated by the Group'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 the Group's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

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

The carrying amount of loans and advances is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

3 Significant accounting policies (continued)

Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities, including customers' deposits and due to banks, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

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 Group 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:

4 Critical accounting judgements and key sources of estimation of uncertainty (continued)

Loans and advances

The allowance for loan losses is established through charges to consolidated 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 consolidated 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 Group'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 Group'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 Group 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 consolidated balance sheet date.

4 Critical accounting judgements and key sources of estimation of uncertainty (continued)

Contract cost estimates

As described in note 3, when the outcome of a construction contract can be estimated reliably, revenues and costs are recognised by reference to stage of completion of the contract activity at the consolidated balance sheet date. In judging whether the outcome of the construction contract can be estimated reliably, management has considered the detailed criterion for determination of such outcome as set out in IAS 11 'Construction Contracts'. For the purpose of estimating the stage of completion of contract activity, management has considered the forecasts for revenue and costs related to each construction contract. When it is estimated that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Management has considered the costs to be incurred based on analysis and forecast of construction work to be executed.

Fair value of unquoted available for sale investments

As described in note 28.8, the directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Such financial instruments are valued using discounted cash flow and capitalization of sustainable earnings analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unquoted shares include some assumptions not supported by observable market prices or rates. The carrying amount of the shares is AED 73.6 million. Details of assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in note 28.8.

5 Cash and cash equivalents

	2008 AED'000	2007 AED'000
Cash balances	**2,018**	1,186
Due from banks		
Current and demand accounts	**8,242**	87,944
Fixed placements	**506,424**	275,175
Call accounts	**21,076**	125,979
	537,760	490,284
Due to banks maturing within three months-		
Deposits	**(2,267)**	(90,000)
Net cash and cash equivalents	**535,493**	400,284

Fixed placements with banks of AED Nil (2007 – AED 140,000,000) and due to banks of AED 270,000,000 (2007 – AED 231,725,000) are due to mature after three months from the date of placement and are not included in cash and cash equivalents.

6 Available for sale investments

Available for sale investments comprise:

	2008 AED'000	2007 AED'000
Investments in quoted securities	**305,975**	638,947
Investments in unquoted securities – at fair value	**121,154**	58,538
Investments in unquoted securities – at cost	**28,438**	1,747
	455,567	699,232
Less: allowance for impairment	**(16,900)**	-
	438,667	699,232

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

	2008 AED'000	2007 AED'000
Opening balance	**699,232**	519,533
Cost of shares purchased	**868,143**	474,320
Cost of shares disposed (note 23)	**(848,879)**	(420,391)
Fair value gain released on shares disposed during the year	**(233,876)**	(173,270)
Net (decrease)/increase in fair value	**(29,053)**	299,040
Fair value	**455,567**	699,232
Less: allowance for impairment	**(16,900)**	-
	438,667	699,232

Included in available for sale investments is an amount of AED 1,030,152 (2007: AED 89,331,273) representing investments in foreign securities.

7 Loans and advances

	2008 AED'000	2007 AED'000
Commercial loans	**978,169**	582,554
Retail finance	**317,400**	170,294
Others	**-**	129
	1,295,569	752,977
Less: allowance for impairment	**(142,191)**	(44,818)
	1,153,378	708,159

Loans and advances are stated net of allowance for impairment. The movement in the allowance during the year was as follows:

	2008 AED'000	2007 AED'000
At January 1	**44,818**	19,795
Charge for the year	**97,460**	25,196
Less: Amounts written off during the year	**(87)**	(173)
At December 31	**142,191**	44,818

8 Investment in associates

	2008 AED'000	2007 AED'000
Cost	**47,288**	38,748
Share of post acquisition profits	**11,921**	5,625
Less: Dividend received	**(4,405)**	(3,132)
	54,804	41,241

8 Investment in associates (continued)

Details of the Group's associates as of 31 December 2008 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	22.16%	Asset management, trading in securities, share brokerage, and corporate finance.
Mainland Management L.L.C.	United Arab Emirates	33.33%	Hospitality management.
Gulf National Securities Center International Ltd	United Arab Emirates	25%	Brokerage services on Nasdaq and Dubai.
Sawaeed Investment L.L.C.	United Arab Emirates	25%	Provider of labour accommodation
Mountain Gate Property Investment L.L.C.	United Arab Emirates	25%	Provider of labour accommodation

For the purpose of applying equity method of accounting, the financial statements of the associates as at 30 September 2008 have been used. Adjustments for significant transactions and events, if any, between 1 October 2008 and 31 December 2008 have been made to reflect the financial position as of 31 December 2008.

The fair value of the Group's investment in The Financial Corporation SAOG, which is listed in Muscat Securities Market in the Sultanate of Oman, as of 31 December 2008 is AED 45,954,068 (31 December 2007: AED 22,768,760).

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

Although the Group holds 25% of the paid-up capital of FH Capital Limited, it exercises management control through its representation in the Board of Directors of this company. Hence, the investment is consolidated within these consolidated financial statements.

8 Investment in associates (continued)

Summarised financial information in respect of the Group's associates are as follows:

	2008 AED'000	2007 AED'000
Total assets	**433,120**	250,523
Total liabilities	**(225,963)**	(64,870)
Net assets	**207,157**	185,653
Group's share of net assets	**53,752**	39,496
Goodwill arising on acquisition	**1,052**	1,745
Carrying amount of investment in associates	**54,804**	41,241
Group's share of contingent liabilities	**5,000**	3,000
Revenue	**90,647**	38,967
Net profit for the year	**36,580**	13,529
Group's share of net profit for the year	**6,296**	2,639

The carrying value of investment in The Financial Corporation SAOG (representing foreign associate) is AED 21,599,295 (2007: AED 17,927,873).

9 Property, fixtures and equipment

	Freehold land AED'000	Furniture, fixtures and equipment AED'000	Motor vehicles AED'000	Computer hardware and software AED'000	Capital work in progress AED'000	Total AED'000
Cost or valuation						
At 1 January 2007	20,000	7,578	433	9,417	-	37,428
Additions during the year	-	3,256	224	442	465	4,387
At 1 January 2008	**20,000**	**10,834**	**657**	**9,859**	**465**	**41,815**
Acquisition of subsidiaries	-	2,079	1,139	190	-	3,408
Additions during the year	66,704	10,058	2,989	3,716	12,417	95,884
Revaluation gain	32,176	-	-	-	-	32,176
At 31 December 2008	**118,880**	**22,971**	**4,785**	**13,765**	**12,882**	**173,283**
Accumulated depreciation						
At 1 January 2007	-	3,059	165	3,365	-	6,589
Charge for the year	-	2,390	115	2,621	-	5,126
At 1 January 2008	**-**	**5,449**	**280**	**5,986**	**-**	**11,715**
Acquisition of subsidiaries	-	647	160	24	-	831
Charge for the year	-	4,946	855	3,010	-	8,811
At 31 December 2008	**-**	**11,042**	**1,295**	**9,020**	**-**	**21,357**
Net book value						
At 31 December 2008	**118,880**	**11,929**	**3,490**	**4,745**	**12,882**	**151,926**
At 31 December 2007	20,000	5,385	377	3,873	465	30,100

The freehold land includes land that was granted free of cost by the Government of Abu Dhabi on which the Group intends to build its office premises.

The fair value of land is based on a valuation carried out on 3 December 2008 by independent valuers not related to the Group. The independent valuers have the appropriate qualifications and recent experience in the valuation of properties in the relevant location. The valuation was arrived at using the sales comparison method.

Capital work in progress mainly pertains to the construction of the office premises on the freehold land granted to the Group by the Government of Abu Dhabi.

10 Interest receivable and other assets

	2008 AED'000	2007 AED'000
Interest receivable	**27,676**	13,312
Prepayments	**13,089**	6,528
Advance for investments	**11,020**	12,931
Accounts receivable	**23,725**	2,177
Amounts due from customers under construction contracts (note 26)	**530**	-
Other assets	**9,648**	820
	85,688	35,768

Advance for investments represents amounts paid to acquire certain equity investments. The necessary legal procedures to transfer the ownership were in progress at the consolidated balance sheet date.

11 Customer deposits

	2008 AED'000	2007 AED'000
By account		
Call and demand deposits	**106,080**	35,933
Margin	**16,482**	7,887
Time deposits	**952,985**	663,602
	1,075,547	707,422
By sector		
Corporate	**711,932**	499,711
Government	**363,615**	207,711
	1,075,547	707,422

12 Interest payable and other liabilities

	2008 AED'000	2007 AED'000
Interest payable	**16,367**	9,584
Accrued expenses	**99,019**	45,805
Other liabilities	**64,324**	32,822
	179,710	88,211

13 Share capital

	2008 AED'000	2007 AED'000
Authorised		
220 million shares (2007: 200 million) of AED 1 each	**220,000**	200,000
Issued and fully paid		
220 million shares (2007: 200 million) of AED 1 each	**220,000**	200,000

On 10 February 2008, the share capital of the Group was increased from 200,000,000 shares to 220,000,000 shares by way of the conversion of the convertible bonds into 20,000,000 fully paid equity shares.

14 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 Group 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, 120,769 shares (2007 – 46,777 shares) were granted to employees and outstanding shares not yet granted to employees as of 31 December 2008 were 1,650,357 (31 December 2007 – 1,771,126).

15 Statutory reserve

In line with the provisions of the UAE Federal Commercial Companies Law No. (8) of 1984, (as amended) and the Group's Articles of Association, the Group 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 Group. The statutory reserve is not available for distribution.

16 Revaluation reserve

Revaluation reserve represents the reserve that arose on revaluation of land that was granted to the Group by the Government of Abu Dhabi, as well as the land that was subsequently acquired for the construction of the head office building (note 9).

17 Proposed dividend

The Board of Directors has proposed a cash dividend of AED 200,000,000 for the year (2007 – AED 150,000,000) representing 100% (2007 - 75%) of the share capital for distribution to the Shareholders. The shares issued upon conversion of the convertible bonds are not eligible for dividends for both 2008 and 2007.

18 Convertible bonds

At the Extraordinary General Meeting held on 22 February 2007, the Shareholders of the Company approved the issuance of interest-free convertible bonds for an amount of AED 20 million. In 2007, the Company issued these bonds, which were convertible into equity shares at AED 1.02 per share. On 10 February 2008, the convertible bonds were converted into 20,000,000 equity shares of AED 1 each, based on the resolution of the Board of Directors of the Group dated 6 February 2008 after obtaining the required statutory and regulatory approvals.

19 Commitments and contingent liabilities

The Group had the following commitments and contingent liabilities outstanding at year end:

	2008 AED'000	2007 AED'000
Letters of credit	**7,649**	11,357
Letters of guarantee	**384,719**	227,886
Capital commitments	**119,002**	101,921
Irrevocable commitments to extend credit	**284,387**	536,401
	795,757	877,565

20 Net interest income

	2008 AED'000	2007 AED'000
Interest income		
On due from banks	**13,282**	19,060
From loans and advances	**122,791**	56,083
Others	**245**	2,187
Total interest income	**136,318**	77,330
Interest expense		
On customer deposits	**(28,342)**	(29,026)
On due to banks	**(17,359)**	(9,088)
Total interest expense	**(45,701)**	(38,114)
Net interest income	**90,617**	39,216

No interest income is recognised on impaired loans and advances.

21 Net fee and commission income

	2008 AED'000	2007 AED'000
Fee and commission income		
Corporate and commercial finance activities	**17,520**	15,530
Retail finance activities	**12,375**	6,825
Total fee and commission income	**29,895**	22,355
Fee and commission expense		
Other	**(10,516)**	(4,676)
Net fee and commission income	**19,379**	**17,679**

22 Net income from investments carried at fair value through profit or loss

	2008 AED'000	2007 AED'000
Net realized gain on disposal of investments held for trading	**707**	1,491
Unrealised (loss)/gain on investments held for trading	**(4,725)**	4,355
Dividends on investments held for trading	**330**	195
Net (loss)/income from investments held for trading	**(3,688)**	**6,041**

23 Net income from available for sale investments

	2008 AED'000	2007 AED'000
Sales proceeds from disposal	**1,251,119**	640,830
Cost of shares disposed (note 6)	**(848,879)**	(420,391)
Finance cost on acquisition of available for sale investments	**(29,563)**	(3,008)
	372,677	217,431
Dividends on available for sale investments	**13,269**	10,535
Net income from available for sale investments	**385,946**	227,966

24 Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year. Diluted earnings per share is determined by adjusting the net profit and the weighted average number of shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible bonds.

The calculation of the basic and diluted earnings per share is based on the following data:

	2008 AED'000	2007 AED'000
Net profit for the year (AED'000)	**248,849**	202,809
Weighted number of shares in issue throughout the year (000's)	**218,033**	200,000
Effect of dilutive convertible bonds issue (000's) (note 18)	**1,967**	20,000
Weighted average number of shares in issue for the purpose of diluted earnings per share (000's)	**220,000**	220,000

25 Related party transactions

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

The related party balances included in the consolidated balance sheet are as follows:

	2008 AED'000	2007 AED'000
Loans and advances		
To associates	**19,850**	-
To key management staff	**1,027**	360
Customers' deposits		
From associates	**11,773**	4,251
From others	**4,557**	1,061
Interest payable and other liabilities		
Payable to the minority of a subsidiary	**27,976**	-

Notes to the consolidated financial statements
for the year ended 31 December 2008 (continued)

25 Related party transactions (continued)

Contingent liabilities (note 19) include a letter of guarantee issued by a bank on behalf of an associate amounting to AED 7,500,000 (31 December 2007 - AED 3,000,000).

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

	2008 AED'000	2007 AED'000
Interest and commission income		
From associates	**1,466**	548
From key management staff	**19**	26
Contract revenue	**31,401**	-
Interest expenses		
To associates	**187**	281
To others	**151**	59
Key management remuneration		
Short term benefits (salaries, benefits and bonuses)	**18,972**	17,480
Share based payments	**37**	23

26 Construction Contracts

	2008 AED'000	2007 AED'000
Construction costs incurred plus recognised profits less recognised losses to date	**55,173**	-
Less: Progress billings to date	**54,643**	-
	530	-
Recognised and included in the consolidated financial statements as amounts due from customers under construction contracts (note 10)	**530**	-

26 Construction Contracts (continued)

At 31 December 2008, retentions held by customers for contract work amounted to AED 5,444,445 (31 December 2007: AED Nil). Advances received from customers for contract work amounted to AED 10,628,751 (31 December 2007: AED Nil).

27 Segmental information

Primary segment information

For operating purposes, the Group is organised into three major business segments:

(i) Commercial and Retail Financing, which principally provides loans and other credit facilities for institutional and individual customers; (ii) Investment, which involves the management of the Group's investment portfolio and its treasury activities; and (iii) Construction, which involves the Group's subsidiaries involved in real estate construction related activities. These segments are the basis on which the Group 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 2008 is as follows:

	Commercial and retail financing AED'000	Investments AED'000	Construction AED'000	Others AED'000	Total AED'000
Operating income	126,270	371,588	(5,285)	-	492,573
Segmental result and profit from operations (before allowance for impairment)	106,968	294,173	(38,019)	-	363,122
Other information					
Segmental assets	1,852,465	522,857	48,403	-	2,423,725
Segmental liabilities	1,527,202	-	101,836	-	1,629,038
Equity	-	11,330	-	783,357	794,687
Capital expenditure	-	-	11,138	95,962	107,100

27 Segmental information (continued)

Primary segment information (continued)

	Commercial and retail financing AED'000	Investments AED'000	Construction AED'000	Others AED'000	Total AED'000
Depreciation expense for the year	-	-	2,938	5,873	8,811
Investments in associates during the year	-	8,540	-	-	8,540
Share of profits of associates for the year	-	6,296	-	-	6,296

27 Segmental information (continued)

Segmental information for the year ended 31 December 2007 is as follows:

	Commercial and retail financing AED'000	Investments AED'000	Construction AED'000	Others AED'000	Total AED'000
Operating income	76,907	217,907	-	-	294,814
Segmental result and profit from operations (before allowance for impairment)	55,685	172,147	-	-	227,832
Other information:					
Segmental assets	1,385,174	774,486	-	-	2,159,660
Segmental liabilities	1,210,193	-	-	-	1,210,193
Equity	-	-	-	949,467	949,467
Capital expenditure	-	-	-	4,387	4,387
Depreciation expense for the year	-	-	-	5,126	5,126
Investments in associates during the year	-	21,658	-	-	21,658
Share of profits of associates for the year	-	2,639	-	-	2,639

27 Segmental information (continued)

Secondary segment information

Although the Group is organised primarily into business segments, the Group operates in two geographic markets. The United Arab Emirates which is designated as Domestic and represents the operations of the Group which originate from the UAE and International which represents the operations of the Group which originate from Sultanate of Oman, Kingdom of Bahrain, State of Qatar and Egypt. The following table shows the distribution of the Group's operating income, total assets, total liabilities and capital expenditure by geographical segment for the year ended 31 December 2008:

	Domestic AED'000	International AED'000	Total AED'000
Operating income	**458,381**	**34,192**	**492,573**
Net profit for the year	**221,333**	**27,516**	**248,849**
Segmental assets	**2,324,657**	**99,068**	**2,423,725**
Segmental liabilities	**1,536,718**	**92,320**	**1,629,038**
Equity	**783,357**	**-**	**783,357**
Minority interest	**11,330**	**-**	**11,330**
Capital expenditure	**107,100**	**-**	**107,100**

Secondary segmental information for the previous year ended 31 December 2007 is as follows:

	Domestic AED'000	International AED'000	Total AED'000
Operating income	276,946	17,868	294,814
Net profit for the year	197,357	5,452	202,809
Segmental assets	1,926,487	233,173	2,159,660
Segmental liabilities	1,080,648	129,545	1,210,193
Equity	949,467	-	949,467
Minority interest	-	-	-
Capital expenditure	4,387	-	4,387

28 Financial instruments

28.1 Capital risk management

The Group is licensed and regulated by the Central Bank of the UAE. The Central Bank's capital adequacy stipulation for finance companies is a minimum of 15%. The Group's capital adequacy ratio as at 31 December 2008 is 37% (2007- 43%), which is in line with the Group's policy of maintaining a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

While maximising the return to Shareholders through the optimisation of debt and equity balance, the Group manages its capital to ensure to be able to continue as a going concern. The Group's overall strategy remains unchanged from 2007.

The Group's Board of Directors reviews the consolidated financial statements on a quarterly basis and as part of this review, the Board also reviews the size and cost of capital of the Group. The Group has a low gearing of 38% (2007-10%) determined as the proportion of net debt to equity.

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

- Tier 1 capital which includes share capital (excluding shares held for employees share-based payment scheme), statutory reserve, retained earnings, convertible bonds and proposed directors' remuneration. The tier 1 capital should be a minimum of 6% of total risk weighted assets.
- Tier 2 capital which includes revaluation reserve and cumulative changes in fair values. The tier 2 capital should be a maximum of 67% of tier 1 capital.

Risk weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

28 Financial instruments (continued)

28.1 Capital risk management (continued)

The Group's capital adequacy position as at 31 December was as follows:

	2008 AED'000	2007 AED'000
Tier 1 capital	**873,846**	665,609
Tier 1 capital as % of total risk weighted assets	**37%**	32%
Tier 2 capital	**42,565**	284,588
Tier 2 capital as % of tier 1 capital	**5%**	43%
Deductions from tier 1 and tier 2 capital		
Investment in associates	**(54,804)**	(41,241)
Total capital base	**861,607**	908,956
Total risk weighted assets	**2,336,188**	2,093,978
Capital adequacy (Total capital base/ Total risk weighted assets)	**37%**	43%

28.2 Financial risk management objectives

The Group's Corporate Treasury function supports the business activities of the Group by providing finance to the business units at the optimum cost, by ensuring that sufficient liquidity is maintained at all times, and by deploying liquid balances at optimum rates, within the risk parameters set by the Board of Directors and the governing laws and regulations.

28 Financial instruments (continued)

28.3 Market risk

The Group's activities expose it mainly to the risk of changes in market price of its portfolio of quoted marketable securities. These market risks are monitored at the end of every market day and reported to senior management. The Group limits market risks by maintaining a diversified portfolio and by the continuous monitoring of developments in the market. In addition, the Group actively monitors the key factors that affect stock and the market movements, including analysis of the operational and financial performance of investees.

The Group does not have any significant exposure to currency risk as most of its assets are denominated in UAE Dirhams or in US Dollars, the latter being pegged to the UAE Dirhams.

There has been no change to the manner in which the Group manages and measures market risk.

Equity price risk sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risk at the reporting date.

If equity prices had been 1% higher/ lower as at year-end:

- Net profit for the year ended 31 December 2008 would be increased/decreased by AED 15,020 (2007: AED 148,756); and
- Cumulative changes in fair values reserve would be increased/decreased by AED 3,059,750 (2007: AED 6,389,470) as a result of the changes in fair value of quoted shares.

The Group's sensitivity to equity prices has not changed significantly from the prior year.

28.4 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the net interest income of the Group. The Group 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 Group manages this risk by matching the repricing of assets and liabilities through risk management strategies.

A substantial majority of the Group'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 Group's loans and advances, customer deposits, dues from banks, and dues to banks fall under this category.

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

28 Financial instruments (continued)

28.4 Interest rate risk (continued)

The Group's interest sensitivity position based on contractual repricing arrangements at 31 December 2008 was as follows:

	Effective rate	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets								
Cash balances		-	-	-	-	-	2,018	2,018
Due from banks	8.08	534,126	-	-	-	-	1,616	535,742
Investments held for trading		-	-	-	-	-	1,502	1,502
Available for sale Investments		-	-	-	-	-	438,667	438,667
Loans and advances	11.21	684,479	60,847	60,842	107,250	239,960	-	1,153,378
Investment in associates		-	-	-	-	-	54,804	54,804
Interest receivable and other assets		-	-	-	-	-	85,688	85,688
Property, fixtures and equipment		-	-	-	-	-	151,926	151,926
Total assets		1,218,605	60,847	60,842	107,250	239,960	736,221	2,423,725
Liabilities and Equity								
Due to banks	2.97	125,000	145,000	-	-	-	2,267	272,267
Term loan	3.70	-	91,829	-	-	-	7,366	99,195
Customers' deposits	5.13	691,415	179,933	4,199	200,000	-	-	1,075,547
Interest payable and other liabilities		-	-	-	-	-	179,710	179,710
Provision for employees' end of service benefits		-	-	-	-	-	2,319	2,319
Equity		-	-	-	-	-	783,357	783,357
Minority Interest		-	-	-	-	-	11,330	11,330
Total liabilities and equity		816,415	416,762	4,199	200,000	-	986,349	2,423,725
On-balance sheet gap		402,190	(355,915)	56,643	(92,750)	239,960	(250,128)	-
Cumulative interest rate sensitivity gap		402,190	46,275	102,918	10,168	250,128	-	-

Available for sale investments include interest bearing securities amounting to AED 3 Million (31 December 2007- AED 3.8 million) carrying effective interest rate of 10.50% per annum (2007: 7.125% to 10.50% per annum).

Notes to the consolidated financial statements for the year ended 31 December 2008 (continued)

28 Financial instruments (continued)

28.4 Interest rate risk (continued)

The Group's interest sensitivity position based on contractual repricing arrangements at 31 December 2007 was as follows:

	Effective rate	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets								
Cash balances		-	-	-	-	-	1,186	1,186
Due from banks	5.45	629,098	-	-	-	-	-	629,098
Investments held for trading		-	-	-	-	-	14,876	14,876
Available for sale Investments		-	-	-	-	-	699,232	699,232
Loans and advances	8.83	554,093	36,941	17,846	31,107	68,172	-	708,159
Investment in associates		-	-	-	-	-	41,241	41,241
Interest receivable and other assets		-	-	-	-	-	35,768	35,768
Property, fixtures and equipment		-	-	-	-	-	30,100	30,100
Total assets		1,183,191	36,941	17,846	31,107	68,172	822,403	2,159,660
Liabilities and Equity								
Due to banks	5.35	196,725	125,000	-	-	-	-	321,725
Term loan	5.85	-	91,813	-	-	-	-	91,813
Customers' deposits	5.51	531,327	175,440	655	-	-	-	707,422
Interest payable and other liabilities		-	-	-	-	-	88,211	88,211
Provision for employees' end of service benefits		-	-	-	-	-	1,022	1,022
Equity		-	-	-	-	-	949,467	949,467
Total liabilities and equity		728,052	392,253	655	-	-	1,038,700	2,159,660
On-balance sheet gap		455,139	(355,312)	17,191	31,107	68,172	(216,297)	-
Cumulative interest rate sensitivity gap		455,139	99,827	117,018	148,215	216,297	-	-

Notes to the consolidated financial statements for the year ended 31 December 2008 (continued)

28 Financial instruments (continued)

28.4 Interest rate risk (continued)

<u>Interest rate sensitivity analysis</u>

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standards and non-standard interest rate scenarios. The sensitivity analysis below has been determined based on the exposure to interest rates for all financial instruments at the consolidated balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the consolidated balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points lower through out the year and all other variables were held constant, the Group's net profit for the year ended 31 December 2008 would be decreased by AED 0.1 million (2007: decrease by AED 1.5 million). This is mainly attributable to the Group's exposure to interest rates on its shareholders' equity, as offset by the effect of floors on its loans and advances.

The Group's sensitivity to interest rates has not changed significantly from the prior year.

28.5 Credit risk

Credit risk refers to the risk that a counterparty defaults on its contractual obligations, resulting in financial loss to the Group, and arises principally from the Group's loans and advances. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the Group manages credit exposure relating to its trading activities by entering into collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits and country limits that are reviewed and approved by the Board's investment and credit committee annually.

28 Financial instruments (continued)

28.5 Credit risk (continued)

Concentration of credit risk arises when a number of counterparties 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 indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The Group 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.

The Group's maximum exposure to credit risk excluding collateral or other credit enhancements, are as follows:

		2008			2007	
	Carrying value AED'000	**Off B/Sheet items AED'000**	**Maximum credit exposure AED'000**	Carrying value AED'000	Off B/Sheet items AED'000	Maximum credit exposure AED'000
Due from banks	**535,742**	**-**	**535,742**	629,098	-	629,098
Loans and advances, net	**1,153,378**	**-**	**1,153,378**	708,159	-	708,159
Unquoted available for sale investments	**149,592**	**-**	**149,592**	60,285	-	60,285
Other assets	**72,599**	**-**	**72,599**	29,240	-	29,240
Letters of credit	**-**	**7,649**	**7,649**	-	11,357	11,357
Letters of guarantee	**-**	**384,719**	**384,719**	-	227,886	227,886
Irrevocable commitments to extend credit	**-**	**284,387**	**284,387**	-	536,401	536,401
	1,911,311	**676,755**	**2,588,066**	1,426,782	775,644	2,202,426

28 Financial instruments (continued)

28.5 Credit risk (continued)

The Group's exposure to credit risk on loans and advances have been analysed in the table below:

	2008 Loans & advances AED'000	**2008 Impairment AED'000**	2007 Loans & advances AED'000	2007 Impairment AED'000
Carrying amount	**1,153,378**		708,159	
Individually impaired loans and advances				
30-60 days	**-**	**-**	61	61
61-90 days	**-**	**-**	591	591
91-180 days	**1,631**	**1,631**	424	424
More than 180 days	**23,084**	**23,084**	13,752	13,752
Less: allowance for individual impairment	**(24,715)**		(14,828)	
Carrying amount	**-**	**24,715**	-	14,828
Past due but not individually impaired				
30-60 days	**3,783**		1,118	
61-90 days	**1,684**		57	
91-180 days	**24,858**		44	
More than 180 days	**1,877**		4	
Carrying amount	**32,202**		1,223	
Neither past due nor individually impaired	**1,238,652**		736,926	
Less: allowance for potential collective impairment	**(117,476)**		(29,990)	
Carrying amount	**1,153,378**		708,159	

28 Financial instruments (continued)

28.5 Credit risk (continued)

An estimate of the fair value of collateral and other security enhancements held against loans and advances is shown below:

	2008 AED'000	2007 AED'000
Against individually impaired		
Property	**7,926**	-
Debt securities	**-**	-
Equities	**20**	-
Other	**4,719**	2,035
Against past due but not impaired		
Property	**91,354**	34,761
Debt securities	**-**	-
Equities	**11,697**	8,189
Other	**14,999**	10,807
Against neither past due nor impaired		
Property	**358,537**	176,687
Debt securities	**-**	19,162
Equities	**108,480**	165,489
Other	**388,968**	65,497
Total	**986,700**	482,627

The Group monitors concentration of credit risk on loans and advances by economic sector. An analysis of concentrations of credit risk at the reporting date is shown below:

	2008 AED'000	2007 AED'000
Economic sector		
Trade	**15,021**	199,112
Real estate	**216,428**	174,304
Manufacturing	**6,628**	3,523
Transport	**24,341**	29,912
Retail and personal loans	**317,400**	213,422
Others	**715,751**	132,704
	1,295,569	752,977
Less: allowance for impairment	**(142,191)**	(44,818)
	1,153,378	708,159

The Group's loans and advances portfolio was held only in the UAE domestic market as of 31 December 2008 and 2007.

Due from banks are assessed to have low credit risk of default since these banks are highly regulated by the central banks of the respective countries. All cash and bank balances are maintained in the local UAE banks.

28 Financial instruments (continued)

28.6 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 has 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 on the next page summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated balance sheet date to the contractual maturity date and do not take into account the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

28 Financial instruments (continued)

28.6 Liquidity risk (continued)

The maturity profile of the assets and liabilities at the consolidated balance sheet date based on contractual repayment arrangements was as follows:

	Total AED'000	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	3 years to less than 5 years AED'000	Over 5 years AED'000
Assets							
Cash balances	2,018	2,018	-	-	-	-	-
Due from banks	535,742	535,742	-	-	-	-	-
Investments held for trading	1,502	1,502	-	-	-	-	-
Available for sale investments	438,667	223,532	-	3,000	79,984	18,245	113,906
Loans and advances	1,153,378	139,278	120,099	393,924	279,104	126,611	94,362
Investment in associates	54,804	-	-	-	54,804	-	-
Interest receivable and other assets	85,688	75,377	7,680	2,123	508	-	-
Property, fixtures and equipment	151,926	-	-	-	-	33,046	118,880
Total assets	2,423,725	977,449	127,779	399,047	414,400	177,902	327,148
Liabilities and Equity							
Due to banks	272,267	125,522	145,545	1,200	-	-	-
Term loan	99,195	-	-	-	98,250	945	-
Customers' deposits	1,075,547	691,414	179,933	4,200	200,000	-	-
Provision for employees' end of service benefit	2,319	-	-	-	-	-	2,319
Interest payable and other liabilities	179,710	53,326	13,912	67,184	5,938	-	39,350
Equity	783,357	-	-	-	-	-	783,357
Minority Interest	11,330	-	-	-	-	-	11,330
Total liabilities and equity	2,423,725	870,262	339,390	72,584	304,188	945	836,356

28. Financial instruments (continued)

28.6 Liquidity risk (continued)

The maturity profile of the assets and liabilities at 31 December 2007 was as follows:

	Total AED'000	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	2 years to less than 5 years AED'000	Over 5 years AED'000
Assets							
Cash balances	1,186	1,186	-	-	-	-	-
Due from banks	629,098	629,098	-	-	-	-	-
Investments held for trading	14,876	14,876	-	-	-	-	-
Available for sale investments	699,232	699,232	-	-	-	-	-
Loans and advances	708,159	222,782	70,006	126,709	144,546	48,362	95,754
Investment in associates	41,241	-	-	-	41,241	-	-
Interest receivable and other assets	35,768	35,768	-	-	-	-	-
Property, fixtures and equipment	30,100	-	-	-	-	10,100	20,000
Total assets	2,159,660	1,602,942	70,006	126,709	185,787	58,462	115,754
Liabilities and Equity							
Due to banks	321,725	160,000	125,000	36,725	-	-	-
Term loan	91,813	-	-	-	91,813	-	-
Customers' deposits	707,422	531,327	175,440	655	-	-	-
Provision for employees' end of service benefit	1,022	-	-	-	-	-	1,022
Interest payable and other liabilities	88,211	49,723	-	38,488	-	-	-
Equity	949,467	-	-	-	-	-	949,467
Total liabilities and equity	2,159,660	741,050	300,440	72,890	91,813	-	949,467

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 consolidated balance sheet date to the contractual maturity date.

28 Financial instruments (continued)

28.7 Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

28.8 Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Investments held for trading

Investments held for trading represent investment securities that present the Group 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 2008. Held for trading investments in foreign securities amount to AED 1,501,806 (31 December 2007: AED 5,935,623)

Except as detailed below, management considers that the carrying amounts of financial assets and financial liabilities in the consolidated financial statements approximate their fair values.

Unquoted equity - at cost

Unquoted equity carried at cost represent such investments for which fair values cannot be measured reliably. Available for sale investments of AED 28.4 million (2007: AED 1.7 million) are carried at cost, of which AED 25.4 million (2007: AED 1.7 million) are in private equity either in their pre-operative phase or in an early stage of operation. These investments are expected to have interested buyers when they become operational. Management intends to hold these investments until the value in these investments is adequately unlocked for optimum return on the investment.

28 Financial instruments (continued)

28.8 Fair value of financial instruments (continued)

Unquoted equity – at fair value

The financial statements include holdings in unquoted shares which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalization of sustainable earnings basis. The valuation model includes some assumptions that are not supported by observable market prices or rates. In determining the fair value, a long term earnings growth factor of 4% and risk adjusted discount or capitalization rates in the range of 20% to 25% were used. If these inputs to the valuation model were 10% higher/ lower while all the other variables were held constant, the carrying amount of the shares would decrease/ increase by AED 11.6 million. The impact of the change in fair valuation from previously existing carrying amounts have been recognised as a part of cumulative changes in fair values in equity.

29 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 19 January 2009.