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

HERITAGE is our most unique characteristic. It is central to how we see ourselves. It defines our identity as individuals, communities and as a nation.

The importance that we attach to our 'heritage' is growing each year as it is the one true richness which bridges the past and the future. Our heritage brings us pride, allows us to expand and brings us joy to share.

We are all active participants in highlighting and preserving our UAE's heritage and in building the capacities within the country to develop and build our heritage through deeper knowledge, talented management and promotion.

Our heritage defines our values; and these values define us in return. From honesty to generosity, compassion, and other values we have inherited from former generations, Finance House is very keen on reflecting all the ethics of our significant heritage and culture in the way we plan and do our business.

Contents

Our Vision

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

We:

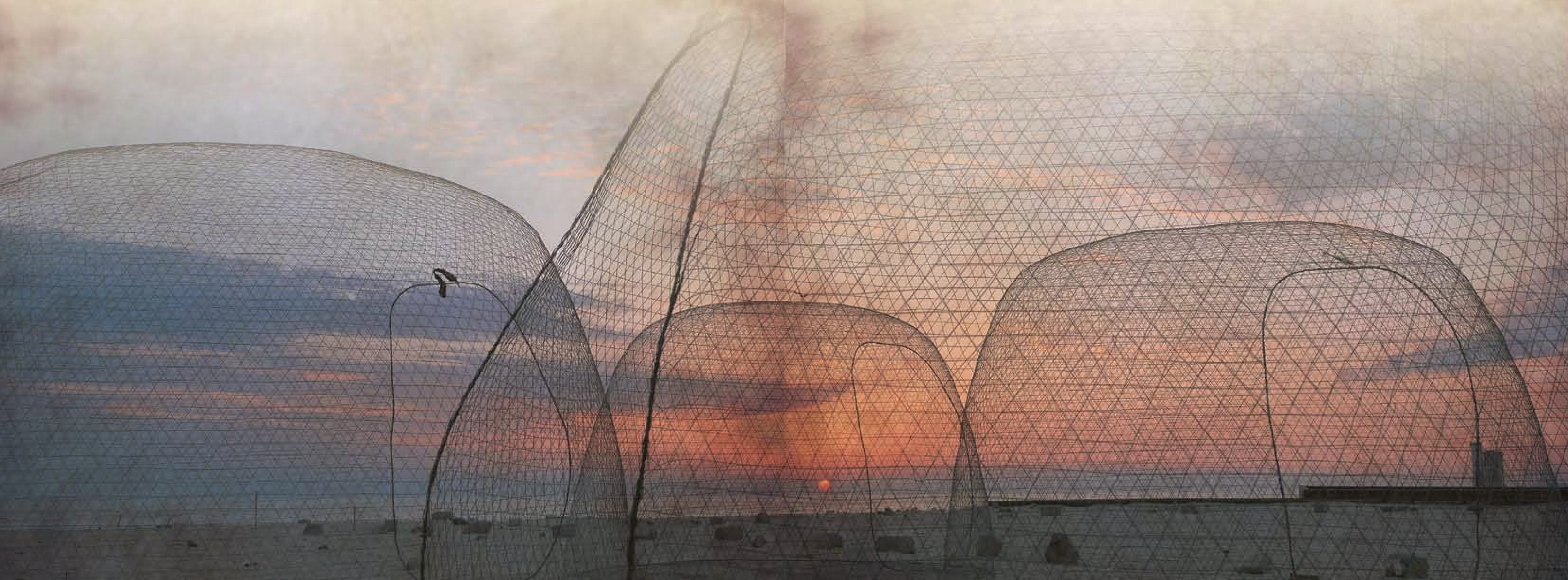
- Focus on local and regional markets and customers to ensure that all segments and individuals are addressed
- Ensure products and services that are tailored precisely to the requirements of our customers
- To be a progressive entity that utilises high-end technology to catapult the financial services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

Our Mission

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

To fulfil this mission, we commit to:

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



Mr. Mohammed Abdullah Alqubaisi

Chairman

Chairman's Statement

I have great pleasure in presenting you Finance House's third Annual Report. Our performance in 2007 added vigour to the momentum we have been building up since the inception of the company – in creating value for our shareholders – and in every qualitative measure.

Two significant sets of activities defined our efforts in 2007. First, we accelerated the growth of our financing operations, resulting in adding significantly to our client base and in growing core assets by 103%, both in terms of commercial clients as well as retail customers. Secondly, we made some very profitable investments, including a management buyout transaction.

Strong performance

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

- Net profit of AED 202.8 million, as against AED 160.6 million the previous year - an increase of 26%.
- Earnings per share of AED 1.01 vis-à-vis AED 0.80 the previous year.
- Total assets grew to AED 2.16 billion - up 64% on the previous year.
- Shareholders' funds grew to AED 949.5 million, an increase of AED 225.1 million, or 31%, over the previous year.
- Loans and advances to customers rose to AED 708.2 million, up from AED 348.2 million in 2006 - an increase of 103%.
- Customer deposit balances at AED 707.4 million as against AED 404.5 million - an increase of 75%.

Economic environment

The latter part of the year was tough for the global economy, buffeted by the sub-prime crisis and the steep fall in value of the US Dollar. However, the GCC economies continued to buck the trend through strong growth driven by rising oil prices for much of 2007, and in UAE's case, augmented by a spectacular growth in the non-oil sector. With a real GDP growth estimated at 7.7% for the year, and the other key macro economic variables remaining very strong, with the continuing boom in construction and the bouyant retail activity propelling economic growth, inflation remains the only worry. Estimated at 8% for 2007, it has been fuelled by shortages in housing, transportation, skilled personnel and other areas which has put pressure on administration costs, and consequently on lending margins. To add to the challenges, the competition intensified in most business sectors, and certainly in the financial sector, leading to a potential oversupply in certain sectors in the periods to come. The UAE equity markets picked up in the latter part of the year, thus adding AED 316 billion to market capitalization for the year.

Chairman's Statement (continued)

Positive Developments

The following notable developments have made 2007 a memorable year for Finance House:

- Greater exposure of the Finance House brand, leading to a higher degree of recognition of the brand among the retail and corporate segments
- Continued strong acceptance from corporate depositors, government institutions and banks, enabling us to source funds on very reasonable terms
- We arranged a US$37 million financing deal for a private equity fund to finance an acquisition in the GCC; we acted as exclusive mandated lead arranger, facility agent and security agent for the transaction which was executed in conjunction with a leading Qatari bank
- We opened our second branch, a large facility at a prominent location in Dubai, to offer our full range of products and services
- Expanded our trade finance activities considerably with the setting up of a dedicated unit to handle this business
- Introduced FlexiDeposit, a novel cash management solution for businesses
- Launched Smart Guarantee, a unique product for corporate clients, designed to take the rigour out of labour guarantees
- The Finance House credit card continued to reward the value conscious UAE consumer through value-added features and promotional measures
- Launched Executive Finance, a personal finance product aimed at serving the high-end retail segment
- Our investment portfolio realised significant gains on nearly all of our exits, both in public and private equity markets.

An Integrated Portfolio of Businesses

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

Our People

Our business strategy is based on plain, common-sense principles - hard work, clear vision and value for the client. What sets us apart is a deep commitment to innovation and an innate ability to tap into the needs and aspirations of our clients.

Central to our success, and to that of our employees, is a passion for service and the values that hold us together. In this entrepreneurial setting, Finance House's staff have the ability to set very ambitious goals as they develop innovative financing solutions for our clients. It is the collective skill, knowledge and commitment of our employees led by a confident and principled leadership that underpins an exceptionally strong culture of delivering value to our customers. The urge to be agile sets us apart in that it gives us a competitive edge. These hitherto qualitative attributes are now objectively measured within our performance measurement system which has been enhanced by implementing the Balanced Scorecard across the Company. This, in turn, has been dovetailed into the performance rewards process. Every employee therefore makes a significant and measurable contribution.

Furthermore, all employees of Finance House own shares in the Company resulting in a closer alignment between employees' interests and those of our shareholders. We continue our efforts in growing Finance House into a world class organization and one of the best employers in the UAE.

Looking Ahead

As Finance House continues to expand with tremendous momentum, our energy remains solidly rooted in our core business – commercial and retail finance – among the fastest growing business sectors in the country. We aim to be small enough to care for our customers, our investors, and our employees, but big enough to be counted as a serious player in the financing business.

The financial services sector is ever more competitive and regulation continues apace. We continually explore and uncover new niches to address since market segments that we have previously regarded as niche begin to attract the attention of larger financial institutions.

We remain very optimistic about our ability to continue to generate above average results for our shareholders. We shall continue to review our strategy to ensure that we concentrate our resources in those areas that we believe will add best value in the medium to long term. Finally, we shall continue to build Finance House into an organization of strong leaders and dedicated 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 2008 and beyond.

In Appreciation

As we reflect on our accomplishments in 2007, I would like to extend my gratitude to our clients for seeking out Finance House, the UAE Central Bank, the Ministry of Economy, and the Securities and Commodities Authority for their continued support, the Board of Directors and our staff for their unstinted efforts in bringing Finance House to where it is today. Lastly, I must add my appreciation for the support and confidence of our shareholders who have stayed with us since inception.

On behalf of the Board of Directors

Mohammed Abdullah Alqubaisi
Chairman

From left to right: Mr. Hamad Abdulla Rashed Al Shamsi, Mr. Abdullah Ali Ibrahim Al Saadi, Mr. Ahmad Obaid Humaid Al Mazrooei, Mr. Mohammed Abdullah Alqubaisi, Mr. Eisa Saif Rashid Al Qubaisi, Mr. Sultan Helal Bin Drei Al Qubaisi, Mr. Salem Mohamed Bin Salem Al Dhaheri.

Board Of Directors

Mr. Mohammed Abdullah Alqubaisi	Chairman
Mr. Ahmad Obaid Humaid Al Mazrooei	Vice Chairman
Mr. Hamad Abdulla Rashed Al Shamsi	Member
Mr. Abdullah Ali Ibrahim Al Saadi	Member
Mr. Salem Mohamed Bin Salem Al Dhaheri	Member
Mr. Sultan Helal Bin Drei Al Qubaisi	Member
Mr. Eisa Saif Rashid Al Qubaisi	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

Business Review

While the global economy commenced 2007 with an upturn, it felt the dampening effects of persistently high commodity and energy prices as well, as the disruption in the financial markets caused by the crisis in the US mortgage market in the second half of the year. By contrast, here in the Gulf Cooperation Council (GCC) countries, the economic momentum continued to remain high, the region's economies benefitting from a heady combination of record fiscal surpluses and business confidence, resulting from high oil prices that scaled successive price peaks, and buoyed by low interest rates, the latter being influenced by the monetary policy governing the US economy.

The combined effect of high growth and low interest rates has manifested itself in two phenomena across the GCC economies, namely, high inflation, and a system-wide shortages of resources. Given the openness of their economies, the GCC countries have been able to cope with the latter phenomenon, but inflation remains an economic inevitability to be addressed with some urgency, largely using fiscal and administrative means.

Corporate and commercial lending remained strong, underpinned by business expansion and diversification plans across the spectrum. Solid corporate earnings and healthy balance sheets, assisted by a conducive credit environment made for a sound business credit quality.

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

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

Commercial and Corporate Finance

Our efforts to build a robust commercial loans portfolio continued in full measure through 2007. We took significant strides in adding to our core assets. Leveraging our long-established relationships within the UAE's business community, we were able to grow the portfolio with good names. Our rigorous credit process is matched by our faster processing cycle thereby resulting in quicker response to our clients.

Notably, in 2007,

- we successfully arranged a $37.2 million financing for a private equity fund to acquire a stake in one of the largest construction companies in the region. We acted in our capacity as the exclusive mandated lead arranger, facility agent and security agent for the transaction, which was executed in conjunction with a large GCC bank.
- we devised a multi-tier financing solution for clients in a $50 million structure that involved senior and subordinated debt and an equity participation in a high-yield business in the infrastructure sector.
- we completed several bridge finance transactions, with maturities of upto 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 launched Smart Guarantee, a new product to address a gap in the market for issuance of labour guarantees. For no charge, Finance House now issues guarantees to Ministry of Labour & Social Affairs against margin held in a Smart Guarantee margin account that carries interest, for the benefit of clients.

Business Review

Retail Finance

In 2007, competition in the UAE's retail finance sector was even more intense with new players entering the individual finance arena and several existing players sharpening their sights onto this space. We emphasized on innovation and value addition as a means to consolidate our position in the market - with continued introduction of imaginatively designed products aimed at niche underserved customer segments. We set up a full-fledged Marketing and Communications Department to elevate "Brand Finance House" to the next level.

Our retail calendar was busy with a number of new offerings and initiatives during 2007.

Our credit card portfolio experienced steady growth with the introduction of several new value added features such as comprehensive auto insurance at very low rates; the most affordable death & disability insurance (Credit Shield); the unique "5 winners a day, 365 days a year" promotion to reward customers; attractive balance transfer facility at low interest rates; card member gift vouchers schemes and savings programs on cardholder spends.

We successfully launched our Home Finance product (residential mortgages) that offers the borrower a highly personalized service at his doorstep. The home finance facility is available for a wide range of properties in exclusive communities developed by top-notch developers in the UAE, with whom we have entered into bilateral agreements

We launched Executive Finance, a top-of-the line personal finance facility tailored to meet the financial needs of salaried executives in the middle and upper management cadres of reputed public and private sector employers across the UAE.

We re-launched the Auto Finance product to make it more attractive to buyers of pre-owned vehicles- an underserved segment of the market, based on research.

Other initiatives included the introduction of a second call centre dedicated to serving prospective customers and their product enquiries; addition of new cash collection points for customers to settle their monthly credit card bills; strategic tie-ups with shopping malls & retailers to promote our retail finance products & services; and arrangements to strengthen systematic follow-up and collection of customer dues.

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. In 2007 we exited several positions profitably, both in listed and unlisted equities, as well as private equity positions.

During 2007 we made several investments in fundamentally sound businesses in growing sectors such as transportation, education, financial services, hospitality and manpower services. A highlight of our 2007 investment activities was that we structured and executed a management buyout of a regional technology company headquartered in Dubai.

Treasury

Throughout 2007 Finance House has been growing its customer deposit base, comprising corporate and institutional depositors. Several institutional relationships were established, with local, regional and international institutions, resulting in the setting up of funding lines, in many cases on a reciprocal basis, for short-term and medium-term deposits. We also augmented our correspondent banking relationships to widen our geographic coverage.

2007 marked the launch of FlexiDeposit, our corporate cash management product that combines the flexibility of a call account with the earning potential of a fixed deposit. With the progressive reduction in interest rates, businesses find this product to be an attractive alternative for surplus cash balances.

Operations

On the operational front, we further refined our processes relating to trade finance, credit administration, collection and controls on access to information. Compliance matters and anti-money laundering measures continue to receive our highest attention. We secured access to the SWIFT network through a member-administered closed user group of a major UAE bank.

Our close involvement with most of the 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 in that risk is rigorously assessed in order that it is effectively managed. Certain credit risks are inherent in making loans, whether commercial or consumer loans. The Company manages credit risks by adhering to internal credit policies and procedures. These policies and procedures include a multi-level loan approval process, manager limits, customer limits, country limits, 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.

We believe entrepreneurs' rising aspirations as to returns on capital employed have led to a shortening of their investment horizon as compared to earlier decades. This in turn has put several new pressures on the finance industry, not the least of which is a need for tighter risk management. We are very conscious of these trends, and our risk management addresses the specific risks, if any, inherent in each financing proposal.

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 charge-offs, including credit card receivables, amounted to a mere 0.03% 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, however low the probability.

Corporate Governance

The Board

We believe good governance is as important to the success of Finance House as the operational achievements of the company, in the enhancement of shareholder value.

The Company is led by its Board of Directors that comprises non-executive and independent directors. 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

The Board has established the following committees: the Investment & Credit Committee, and the Audit Committee.

The Investment & Credit Committee reviews investment opportunities, credit proposals and matters of credit policy, and reports its findings and recommendations to the Company's Board of Directors.

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

During the year, we further strengthened our management team with specialised talent. Our executive remuneration packages are prudently designed to attract, motivate and retain managers of the high calibre needed to maintain the company's leading position and to reward them for meeting business goals, 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 2007.

Financial Review

Finance House's Balance Sheet, Earnings, and Capital base continued to grow in 2007, its third year of operations, demonstrating the fundamental strength of the company's business strategy.

BALANCE SHEET

Total Assets

Total Assets as at 31st December 2007 were AED 2.16 billion, an increase of 64% over the previous year-end, based on an all-round increase in the company's assets, but most significantly in the company's loan portfolio.

Loans and Advances

Net Loans and Advances grew to AED 708.2 million, from AED 348.7 million in 2006, constituting an increase of 103%. Commercial loans grew 108%, while retail loans doubled, year-on-year. Both categories of loans carry a high credit quality, with rather low default ratio levels. The company follows a policy of prudent provisioning and accordingly, the allowance for potential impairment stands at 5.95% of the total Loans and Advances.

Investments

The total investments at the year-end stood at AED 755.3 million as compared to AED 543.8 million in 2006. The company's investments are predominantly in marketable securities, and have proved to be an excellent source of profitability since inception, complementing that of the loan portfolios. These investments, by and large, are of a long-term nature in blue chip local and regional companies.

Deposits

Total Deposits grew to AED 1.12 billion at the year end, which represents a 102% increase over the previous year's level of AED 554.5 million. The bulk of these deposits consists of deposits from corporate customers and governmental institutions, and grew 75% over the previous year, while the remaining deposits comprise deposits from Banks, which grew by 176% over the previous year.

Capital Strength

Shareholders' Equity as at year-end amounted to AED 949.5 million, registering an increase of 31% over the previous year's figure of AED 724.3 million. Within this figure, the Retained Earnings component grew to AED 384.4 million, marking an increase of 24% over the previous year figure of AED 308.8 million. The cumulative changes in fair value amounted to AED 264.6 million, recording an increase of 91% over the previous year despite significant profits being realised during the year on the company's investments. The company's Balance Sheet reflects a low capital gearing of 1.27, 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 43%, substantially higher than the regulatory stipulation of 15%.

INCOME STATEMENT

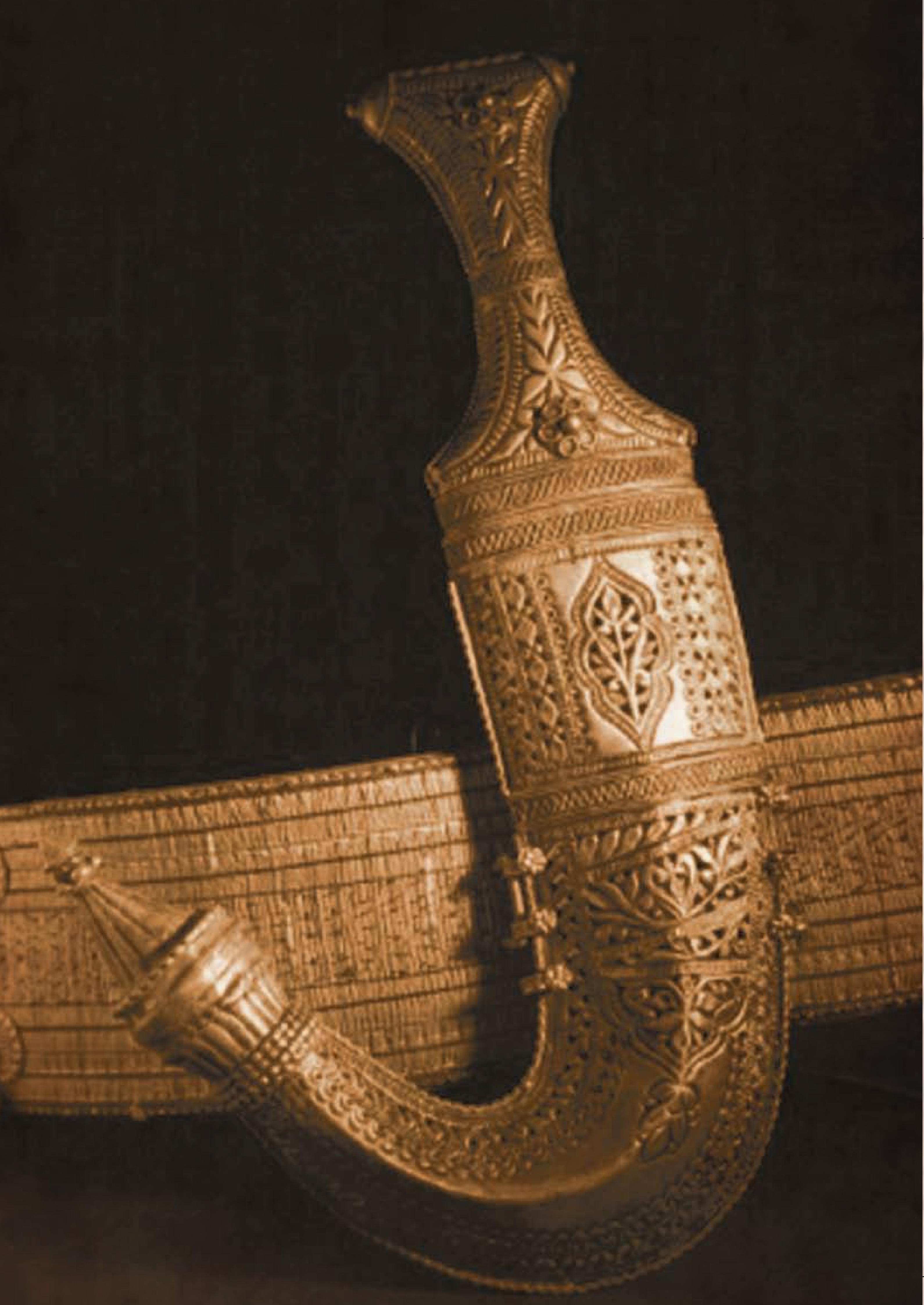
Net operating income for the year ended 31st December 2007 rose to AED 294.8 million, which represents an increase of 37% over the previous year's figure of AED 215.8 million. Similarly, the net profit for 2007 rose to AED 202.8 million, a growth of 26% over the previous year's figure of AED 160.6 million.

Earnings per share amounted to AED 1.01 in 2007 as against a corresponding figure of AED 0.80 for 2006. Return on average equity during 2007 grew to 24% (from 21% in 2006) and return on average assets amounted to 11.7% during 2007.

Net interest income for 2007 was AED 39.2 million, as against AED 33.8 million the previous year, the increase of 16% being the result of the growth in the loan portfolio.

Investment income for 2007 was AED 236 million, an increase of 34% over the corresponding figure of AED 177 million for the previous year.

General and administrative expenses were kept under control in 2007 and amounted to 22.7% of the company's total operating income for the year, a marginal rise over the previous year's ratio of 20%. The increase is attributed to the full year effect of the hiring that took place during the previous year and to inflationary cost pressures.



Independent Auditor's Report

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

Report on the financial statements

We have audited the accompanying financial statements of Finance House P.J.S.C (the "Company"), which comprise the balance sheet as at 31 December 2007, the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

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

Ahmad Nimer
Registration No. 380
28 January 2008

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FINANCE HOUSE P.J.S.C.

BALANCE SHEET

as at 31 December 2007

	Notes	2007 AED'000	2006 AED'000
ASSETS			
Cash balances	5	1,186	667
Due from banks	5	629,098	372,800
Investments held for trading		14,876	4,178
Available for sale investments	6	699,232	519,533
Loans and advances	7	708,159	348,226
Investment in associates	8	41,241	20,076
Property, fixtures and equipment	9	30,100	30,839
Interest receivable and other assets	10	35,768	17,296
Total assets		2,159,660	1,313,615
LIABILITIES AND EQUITY			
Liabilities			
Customers' deposits	11	707,422	404,535
Due to banks	5	413,538	150,000
Interest payable and other liabilities	12	88,211	34,126
Provision for employees' end of service benefits		1,022	616
Total liabilities		1,210,193	589,277
Equity			
Share capital	13	200,000	200,000
Employees share-based payment scheme	14	(1,878)	(1,928)
Statutory reserve	15	55,386	35,105
Revaluation reserve	16	20,000	20,000
Cumulative changes in fair values		264,588	138,818
Retained earnings		384,371	308,843
Convertible bonds	18	20,000	20,000
Proposed directors' remuneration		7,000	3,500
Total equity		949,467	724,338
Total liabilities and shareholders' equity		2,159,660	1,313,615
Commitments and contingent liabilities	19	877,565	82,287

Mr. Mohammed Alqubaisi
Chairman

Mr. Hamid Taylor
General Manager

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

Income statement

for the year ended 31 December 2007

	Notes	2007 AED'000	2006 AED'000
Interest income		77,330	50,084
Interest expense		(38,114)	(16,278)
Net interest income	20	**39,216**	33,806
Fee and commission income		22,355	8,066
Fee and commission expense		(4,676)	(4,342)
Net fee and commission income	21	**17,679**	3,724
Net income from investments carried at fair value through profit or loss	22	6,041	220
Net income from available for sale investments	23	227,966	175,035
Share of profit of associates	8	2,639	1,450
Other operating income		1,273	1,553
Total operating income		**294,814**	215,788
Salaries and employee related expenses		(43,952)	(21,611)
Depreciation on property, fixtures and equipment	9	(5,126)	(4,380)
Other general and administrative expenses		(17,904)	(17,187)
Allowance for impairment of loans and advances, net	7	(25,023)	(12,006)
Total operating expenses		**(92,005)**	(55,184)
Net profit for the year		**202,809**	160,604
Basic earnings per share (AED)	24	**AED 1.01**	AED 0.80
Diluted earnings per share (AED)	24	**AED 0.92**	AED 0.80

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

Statement of changes in equity

for the year ended 31 December 2007

	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	Total AED'000
Balance at 1 January 2006	**200,000**	**(2,244)**	**19,045**	**20,000**	**400,012**	**167,799**	**-**	**3,610**	**808,222**
Decrease in fair value of investments available for sale	-	-	-	-	(23,370)	-	-	-	(23,370)
Realised gain on sale of investments available for sale	-	-	-	-	(237,824)	-	-	-	(237,824)
Directors' remuneration paid	-	-	-	-	-	-	-	(3,610)	(3,610)
Net profit for the year	-	-	-	-	-	160,604	-	-	160,604
Transfer to statutory reserve	-	-	16,060	-	-	(16,060)	-	-	-
Proposed Directors' remuneration	-	-	-	-	-	(3,500)	-	3,500	-
Utilisation under employees share-based payment scheme	-	316	-	-	-	-	-	-	316
Convertible Bonds issued (note 18)	-	-	-	-	-	-	20,000	-	20,000
Balance at 1 January 2007	**200,000**	**(1,928)**	**35,105**	**20,000**	**138,818**	**308,843**	**20,000**	**3,500**	**724,338**
Increase in fair value of investments available for sale	-	-	-	-	299,040	-	-	-	299,040
Realised gain on sale of investments available for sale	-	-	-	-	(173,270)	-	-	-	(173,270)
Directors' remuneration paid	-	-	-	-	-	-	-	(3,500)	(3,500)
Cash dividend paid	-	-	-	-	-	(100,000)	-	-	(100,000)
Net profit for the year	-	-	-	-	-	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
Balance at 31 December 2007	**200,000**	**(1,878)**	**55,386**	**20,000**	**264,588**	**384,371**	**20,000**	**7,000**	**949,467**

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

Statement of cash flows

for the year ended 31 December 2007

	Note	2007 AED'000	2006 AED'000
Operating activities			
Net profit for the year		202,809	160,604
Adjustments for:			
Depreciation of property, fixtures and equipment		5,126	4,380
Write off of capital work in progress		-	462
Distribution of shares under employees share-based payment		50	316
Dividend income		(10,730)	(2,232)
Realised gain on disposal of investments held for trading		(1,491)	(140)
Realised gain on disposal of investments available for sale, net		(217,431)	(172,985)
Unrealised (gain)/loss on revaluation of investments held for trading		(4,355)	102
Share of profit of associates		(2,639)	(1,450)
Allowance for impairment of loans and advances		25,023	12,006
Net movement in provision for employees' end of service benefits		406	(616)
Operating profit before changes in operating assets and liabilities		(3,232)	447
Increase in due from banks maturing after three months		(140,000)	-
Purchase of investments held for trading		(24,498)	(176,174)
Proceeds from sale of investments held for trading		19,646	176,313
Increase in loans and advances		(384,956)	(194,918)
Increase in due to banks maturing after three months		323,538	-
Increase in interest receivable and other assets		(18,472)	(6,323)
Increase in customers' deposits		302,887	278,043
Increase/(decrease) in interest payable and other liabilities		54,085	(11,124)
Net cash from operating activities		128,998	66,264
Investing activities			
Proceeds from disposal of available for sale investments		640,830	570,526
Purchase of available for sale investments		(474,320)	(509,716)
Finance cost incurred on acquisition of available for sale investments		(3,008)	(64,240)
Purchase of property, fixtures and equipment		(4,387)	(3,506)
Investment in associates		(21,658)	(7,841)
Dividend income received		13,862	2,232
Net cash received from/(used in) investing activities		151,319	(12,545)
Financing activities			
Directors' remuneration paid		(3,500)	(3,610)
Proceeds from convertible bond issue		-	20,000
Cash dividend paid		(100,000)	-
Net cash (used in)/from financing activities		(103,500)	16,390
Net increase in cash and cash equivalents		176,817	70,109
Cash and cash equivalents at beginning of the year		223,467	153,358
Cash and cash equivalents at the end of the year	5	400,284	223,467

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

Notes to the financial statements

for the year ended 31 December 2007

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 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 branch in Dubai which was established during the year. 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 financial statements are presented in UAE Dirhams (AED) since that is the currency in which the majority of the Company's transactions are denominated.

2 Adoption of new and revised Standards

2.1 Standards and interpretations effective in the current period

In the current year, the Company has adopted *IFRS 7 Financial Instruments: Disclosures* which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Company's financial statements and management of capital (See note 27). In accordance with the transitional requirements of the amendments, the Company has provided full comparative information. Certain comparative amounts have been regrouped to conform to current year presentation.

2 Adoption of new and revised Standards (continued)

2.1 Standards and interpretations effective in the current period (continued)

Four interpretations issued by the International Financial Reporting Interpretations Committee effective for the current period are as follows:

- IFRIC 7: *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationery Economies*
- IFRIC 8: *Scope of IFRS 2*
- IFRIC 9: *Reassessment of Embedded Derivatives*
- IFRIC 10: *Interim Financial Reporting and Impairment*

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

2.2 Standards and interpretations in issue not yet adopted

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

• IAS 1 (Revised) *Presentation of Financial Statements*	Effective for annual periods beginning on or after 1 January 2009
• IFRS 8 *Operating Segments*	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
• IFRIC 11 IFRS 2: *Company and Treasury Share Transactions*	Effective for annual periods beginning on or after 1 March 2007
• IFRIC 12 *Service Concession Arrangements*	Effective for annual periods beginning on or after 1 January 2008
• IFRIC 13 *Customer Loyalty Programmes*	Effective for annual periods beginning on or after 1 July 2008
• IFRIC 14 *IAS 19 – The limit on a defined benefit asset, Minimum Funding Requirements and their Interaction*	Effective for annual periods beginning on or after 1 January 2008

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

3 Significant accounting policies

Basis of preparation

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

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

Investment in associates

An associate is an entity over which the Company 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 and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the balance sheet at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of individual investments.

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

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 equipments, 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 sales proceeds and the carrying amount of the asset and is recognised in income statement.

Impairment of property, plant and equipment

At each balance sheet date, the Company 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 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 income statement.

Employees' end of service benefits

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

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

3 Significant accounting policies (continued)

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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 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 retranslated at the rates prevailing at the 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 income statement in the period in which they arise.

Interest

Interest income and expense are recognized in the 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.

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 Company 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 Company'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 27.9.

3 Significant accounting policies (continued)

Financial assets (continued)

AFS financial assets

Unquoted shares and quoted shares held by the Company 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 27.9. 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 Company'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 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.

3 Significant accounting policies (continued)

Financial assets (continued)

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.

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 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.

3 Significant accounting policies (continued)

Financial assets (continued)

Performing loans

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

Impairment loss includes losses which may arise from individual performing loans that are impaired at the balance sheet date but were not specifically identified as such until some time in the future. The estimated impairment is calculated by the Company's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

Retail loans with common features and which are not individually significant

Impairment of retail loans is calculated by the Company's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions..

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.

Derecognition of financial assets

The Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset.

3 Significant accounting policies (continued)

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 Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities, including customer's 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 Company derecognises financial liabilities when, and only when, the Company'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 Company has made certain judgements. These judgements mainly have a significant effect on the carrying amounts of loans and advances. The significant judgements made by the management in arriving at the carrying amounts of loans and advances and fair values of derivative financial instruments are summarised as follows:

Loans and advances

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

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

Loans and advances (continued)

Individually assessed loans

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

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

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

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

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

Collectively assessed loans

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

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

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

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

5 Cash and cash equivalents

	2007 AED'000	2006 AED'000
Cash balances	**1,186**	667
Due from banks		
Current and demand accounts	**87,944**	869
Fixed placements	**275,175**	366,866
Call accounts	**125,979**	5,065
	490,284	373,467
Due to banks maturing within three months- Deposits	**(90,000)**	(150,000)
Net cash and cash equivalents	**400,284**	223,467

Fixed placements with banks of AED 140,000,000 (2006 – AED Nil) and due to banks of AED 323,538,000 (2006 – AED Nil) 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:

	2007 AED'000	2006 AED'000
Investments in quoted securities	**653,440**	489,455
Investments in unquoted securities – at fair value	**21,363**	21,529
Investments in unquoted securities – at cost	**24,429**	8,549
	699,232	519,533

6 Available for sale investments (continued)

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

	2007 AED'000	2006 AED'000
Opening balance	**519,533**	604,312
Cost of shares purchased	**474,320**	509,716
Cost of shares disposed (note 23)	**(420,391)**	(333,301)
Fair value gain on shares disposed during the year transferred to income statement	**(173,270)**	(237,824)
Net increase/(decrease) in fair value	**299,040**	(23,370)
Fair value	**699,232**	519,533

7 Loans and advances

	2007 AED'000	2006 AED'000
Commercial loans	**582,554**	279,838
Retail finance	**170,294**	85,318
Bills discounted	**-**	545
Others	**129**	2,320
	752,977	368,021
Less: allowance for impairment	**(44,818)**	(19,795)
	708,159	348,226

7 Loans and advances (continued)

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

	2007 AED'000	2006 AED'000
At January 1	**19,795**	7,789
Charge for the year	**25,196**	12,120
Less: Amounts written off during the year	**(173)**	(114)
At December 31	**44,818**	19,795

8 Investment in associates

	2007 AED'000	2006 AED'000
Cost	**38,748**	17,090
Share of post acquisition profits	**5,625**	2,986
Less: Dividend received	**(3,132)**	-
	41,241	20,076

Details of the Company's associates as of 31 December 2007 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 Limited	United Arab Emirates	25%	Brokerage services on Dubai International Financial Exchange.

The Company has increased its holding in The Financial Corporation SAOG during the year to 22.16% (2006: 21.3%).

8 Investment in associates (continued)

For the purpose of applying equity method of accounting, the financial statements of the associates as at 30 September 2007 have been used. Adjustments for significant transactions and events, if any, between 1 October 2007 and 31 December 2007 have been made to reflect the financial position as of 31 December 2007.

The fair value of the Company's investment in The Financial Corporation SAOG, which is listed in Muscat Securities Market in Sultanate of Oman, as of 31 December 2007 is AED 22,768,760 (31 December 2006: AED 16,293,362).

Although the Company holds 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.

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

	2007 AED'000	2006 AED'000
Total assets	**250,523**	246,050
Total liabilities	**(64,870)**	(133,888)
Net assets	**185,653**	112,162
Company's share of net assets	**39,496**	19,146
Goodwill arising on acquisition	**1,745**	930
Carrying amount of investment in associates	**41,241**	20,076
Company's share of contingent liabilities	**3,000**	594
Revenue	**38,967**	24,779
Net profit for the year	**13,529**	14,500
Company's share of net profit for the year	**2,639**	1,450

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 2006	20,000	6,852	299	7,085	180	34,416
Additions during the year	-	726	134	2,646	-	3,506
Transfers	-	-	-	180	(180)	-
Write off	-	-	-	(494)	-	(494)
At 1 January 2007	**20,000**	**7,578**	**433**	**9,417**	**-**	**37,428**
Additions during the year	-	3,256	224	442	465	4,387
At 31 December 2007	**20,000**	**10,834**	**657**	**9,859**	**465**	**41,815**
Depreciation						
At 1 January 2006	-	1,261	62	918	-	2,241
Charge for the year	-	1,798	103	2,479	-	4,380
Write off	-	-	-	(32)	-	(32)
At 1 January 2007	**-**	**3,059**	**165**	**3,365**	**-**	**6,589**
Charge for the year	-	2,390	115	2,621	-	5,126
At 31 December 2007	**-**	**5,449**	**280**	**5,986**	**-**	**11,715**
Net book value						
At 31 December 2007	**20,000**	**5,385**	**377**	**3,873**	**465**	**30,100**
At 31 December 2006	20,000	4,519	268	6,052	-	30,839

The freehold land was granted free of cost by the Government of Abu Dhabi on which the Company has the intention to build its office premises.

The value of the land is based on professional valuation performed by an independent real estate valuer in 2005.

10 Interest receivable and other assets

	2007 AED'000	2006 AED'000
Interest receivable	**13,312**	9,961
Prepayments	**6,528**	5,500
Advance for investments	**12,931**	-
Accounts receivable	**2,177**	697
Other assets	**820**	1,138
	35,768	17,296

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

11 Customer deposits

	2007 AED'000	2006 AED'000
By account		
Call and demand deposits	**35,933**	16,590
Margin	**7,887**	2,177
Time deposits	**663,602**	385,768
	707,422	404,535
By sector		
Corporate	**499,711**	404,535
Government	**207,711**	-
	707,422	404,535

12 Interest payable and other liabilities

	2007 AED'000	2006 AED'000
Interest payable	**9,584**	5,253
Accrued expenses	**45,805**	26,065
Other liabilities	**32,822**	2,808
	88,211	34,126

13 Share capital

	2007 AED'000	2006 AED'000
Authorised		
200,000,000 shares of AED 1 each	**200,000**	200,000
Issued and fully paid		
200,000,000 shares of AED 1 each	**200,000**	200,000

At 31 December 2007, a total of 39,975,000 shares (31 December 2006: 39,975,000), representing 19.99% holding, were held by the Abu Dhabi Investment Company (ADIC).

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 Company will be granted the shares. The value of shares granted to employees are expensed in the period in which they are granted, and that of the remaining shares are included within shareholders' equity.

During the year, 46,777 shares (31 December 2006 - 297,846 shares) were granted to employees and outstanding shares not yet granted to employees as of 31 December 2007 were 1,771,126 (31 December 2006 - 1,817,903).

15 Statutory reserve

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

16 Revaluation reserve

Revaluation reserve represents the reserve that arose on valuation of the land that was granted to the Company by the Government of Abu Dhabi for the construction of the head office building (note 9).

17 Proposed dividend

The Board of Directors has proposed a cash dividend for the year of AED 150,000,000 (2006 – AED 100,000,000) representing 75% (2006 - 50%) of the share capital for distribution to the Shareholders.

18 Convertible bonds

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

19 Commitments and contingent liabilities

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

	2007 AED'000	2006 AED'000
Letters of credit	**11,357**	641
Letters of guarantee	**227,886**	64,690
Capital commitment	**101,921**	9,770
Irrevocable commitments to extend credit	**536,401**	7,186
	877,565	82,287

20 Net interest income

	2007 AED'000	2006 AED'000
Interest income		
On due from banks	**19,060**	14,796
From loans and advances	**56,083**	33,187
Others	**2,187**	2,101
Total interest income	**77,330**	50,084
Interest expense		
On customer deposits	**(29,026)**	(10,996)
On due to banks	**(9,088)**	(5,282)
Total interest expense	**(38,114)**	(16,278)
Net interest income	**39,216**	33,806

No interest income is recognised on impaired loans and advances.

21 Net fee and commission income

	2007 AED'000	2006 AED'000
Fee and commission income		
Retail finance activities	**6,825**	3,847
Corporate and commercial finance activities	**15,530**	4,219
Total fee and commission income	**22,355**	8,066
Fee and commission expense	**(4,676)**	(4,342)
Net fee and commission income	**17,679**	3,724

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

	2007 AED'000	2006 AED'000
Net realised gain on disposal of investments held for trading	1,491	140
Unrealised gain/ (loss) on investments held for trading	4,355	(102)
Dividends on investments held for trading	195	182
Total income from investments held for trading	6,041	220

23 Net income from available for sale investments

	2007 AED'000	2006 AED'000
Sales proceeds from disposal	640,830	570,526
Cost of shares disposed (note 6)	(420,391)	(333,301)
Finance cost on acquisition of available for sale investments	(3,008)	(64,240)
	217,431	172,985
Dividends on available for sale investments	10,535	2,050
Total income from available for sale investments	227,966	175,035

24 Earnings per share

Basic earnings per share is calculated by dividing the net profit for the period by the weighted average number of shares outstanding during the period. 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:

	2007 AED'000	2006 AED'000
Net profit for the year (AED'000)	202,809	160,604
Weighted number of shares in issue throughout the year (000's)	200,000	200,000
Effect of dilutive convertible bonds issue (000's) (note 18)	20,000	1,096
Weighted average number of shares in issue for the purpose of diluted earnings per share (000's)	220,000	201,096

25 Related party transactions

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

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

	2007 AED'000	2006 AED'000
Loans and advances to customers		
To associates	-	675
To key management staff	360	1,044
Customers' deposits		
From associates	4,251	12,539
From others	1,061	28,643

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 3,000,000 (31 December 2006 - AED 2,000,000)

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

	2007 AED'000	2006 AED'000
Interest and commission income		
From associates	**548**	153
From key management staff	**26**	9
Interest expenses		
To associates	**281**	456
To others	**59**	159
Key management remuneration		
Short term benefits (salaries, benefits and bonuses)	**17,480**	8,635
Share based payments	**23**	285

26 Segmental information

Primary segment information

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

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

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

	Commercial and retail financing AED'000	Investment AED'000	Others AED'000	Total AED'000
Operating income	76,907	217,907	-	294,814
Segmental result and profit from operations	30,662	172,147	-	202,809
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

26 Segmental information (continued)

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

	Commercial and retail financing AED'000	Investment AED'000	Others AED'000	Total AED'000
Operating income	36,982	178,806	-	215,788
Segmental result and profit from operations	20,363	140,241	-	160,604
Other information:				
Segmental assets	769,062	544,553	-	1,313,615
Segmental liabilities	589,277	-	-	589,277
Equity	-	-	724,338	724,338
Capital expenditure	3,506	-	-	3,506
Depreciation expense for the year	4,380	-	-	4,380
Investments in associates during the year	-	7,841	-	7,841
Share of profits of associates for the year	-	1,450	-	1,450

26 Segmental information (continued)

Secondary segment information

Although the Company is organised primarily into business segments, the Company operates in two geographic markets. The United Arab Emirates which is designated as Domestic and represents the operations of the Company which originate from the UAE and International which represents the operations of the Company which originate from Sultanate of Oman, State of Qatar, Kingdom of Bahrain and Egypt. The following table shows the distribution of the Company's operating income, total assets, total liabilities and capital expenditure by geographical segment for the year ended 31 December 2007:

	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**
Capital expenditure	**4,387**	**-**	**4,387**

Secondary segmental information for the previous year ended 31 December 2006 is as follows:

	Domestic AED'000	International AED'000	Total AED'000
Operating income	211,878	3,910	215,788
Net profit for the year	157,982	2,622	160,604
Segmental assets	1,171,935	141,680	1,313,615
Segmental liabilities	589,277	-	589,277
Equity	724,338	-	724,338
Capital expenditure	3,506	-	3,506

27 Financial instruments

27.1 Capital risk management

The Company 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 Company's capital adequacy ratio as at 31 December 2007 is 43% (2006- 67%), which is in line with the Company'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 Company manages its capital to ensure to be able to continue as a going concern. The Company's overall strategy remains unchanged from 2006.

The Company's Board of Directors reviews the financial statements on quarterly basis and as part of this review, the Board also reviews the size and cost of capital of the Company. The Company has a low gearing ratio of 32% determined as the proportion of net debt to equity.

The Company'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.

27 Financial instruments (continued)

27.1 Capital risk management (continued)

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

	2007 AED'000	2006 AED'000
Tier 1 capital	**665,609**	565,520
Tier 1 capital as % of total risk weighted assets	**32%**	53%
Tier 2 capital	**284,588**	158,818
Tier 2 capital as % of tier 1 capital	**43%**	28%
Deductions from tier 1 and tier 2 capital		
Investment in associates	**(41,241)**	(20,076)
Total capital base	**908,956**	704,259
Total risk weighted assets	**2,093,978**	1,056,503
Capital adequacy (Total capital base/ Total risk weighted assets)	**43%**	67%

27.2 Financial risk management objectives

The Company's Corporate Treasury function supports the business activities of the Company 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.

27 Financial instruments (continued)

27.3 Market risk

The Company'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 Company limits market risks by maintaining a diversified portfolio and by the continuous monitoring of developments in the market. In addition, the Company actively monitors the key factors that affect stock and the market movements, including analysis of the operational and financial performance of investees.

The Company 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 Company 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 2007 would be increased/decreased by AED 148,756 (2006: AED 41,780); and
- Cumulative changes in fair values reserve would be increased/decreased by AED 6,815,600 (2006: AED 5,040,324) as a result of the changes in fair value of quoted shares.

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

27.4 Interest rate risk

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

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

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

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

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

27 Financial instruments (continued)

27.4 Interest rate risk (continued)

The Company'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	9.11	599,085	94,058	2,100	12,916	-	-	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		1,228,183	94,058	2,100	12,916	-	822,403	2,159,660
Liabilities and Equity								
Due to banks	5.67	196,725	216,813	-	-	-	-	413,538
Customers' deposits	5.56	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		500,131	(298,195)	1,445	12,916	-	(216,297)	-
Cumulative interest rate sensitivity gap		500,131	201,936	203,381	216,297	216,297	-	-

Available for sale investments include interest bearing securities amounting to AED 3.8 million (31 December 2006- AED 31.2 million) carrying effective interest rate of 7.125% to 12% per annum.

27 Financial instruments (continued)

27.4 Interest rate risk (continued)

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

	Effective rate	Less than 3 months 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		-	-	-	-	-	667	667
Due from banks	6.05	372,800	-	-	-	-	-	372,800
Investments held for trading		-	-	-	-	-	4,178	4,178
Available for sale investments		-	-	-	-	-	519,533	519,533
Loans and advances	11.76	317,536	11,962	18	18,710	-	-	348,226
Investment in associates		-	-	-	-	-	20,076	20,076
Interest receivable and other assets		-	-	-	-	-	17,296	17,296
Property, fixtures and equipment		-	-	-	-	-	30,839	30,839
Total assets		690,336	11,962	18	18,710	-	592,589	1,313,615
Liabilities and Equity								
Due to banks	5.48	150,000	-	-	-	-	-	150,000
Customers' deposits	5.62	401,330	2,581	624	-	-	-	404,535
Interest payable and other liabilities		-	-	-	-	-	34,126	34,126
Provision for employees' end of service benefits		-	-	-	-	-	616	616
Equity		-	-	-	-	-	724,338	724,338
Total liabilities and equity		551,330	2,581	624	-	-	759,080	1,313,615
On-balance sheet gap		139,006	9,381	(606)	18,710	-	(166,491)	-
Cumulative interest rate sensitivity gap		139,006	148,387	147,781	166,491	166,491	-	-

27 Financial instruments (continued)

27.4 Interest rate risk (continued)

Interest rate sensitivity analysis

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Company'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 balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the 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 Company's net profit for the year ended 31 December 2007 would be decreased by AED 1.5 million (2006: decrease by AED 0.9 million). This is mainly attributable to the Company's exposure to interest rates on its shareholders' equity, as offset by the effect of floors on its loans and advances.

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

27.5 Credit risk

Credit risk refers to the risk that a counterparty defaults on its contractual obligations, resulting in financial loss to the Company, and arises principally from the Company's loans and advances. The Company 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 Company 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 Company 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 Company may also close out transactions or assign them to other counterparties to mitigate credit risk. The Company'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.

27 Financial instruments (continued)

27.5 Credit risk (continued)

Concentration of credit risk arise 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 Company's performance to developments affecting a particular industry or geographic location.

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

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

	2007			2006		
	Carrying value AED'000	Off balance items AED'000	Maximum credit exposure AED'000	Carrying value AED'000	Off balance items AED'000	Maximum credit exposure AED'000
Due from banks	629,098	-	629,098	372,800	-	372,800
Loans and advances, net	708,159	-	708,159	348,226	-	348,226
Unquoted available for sale investments	45,792	-	45,792	30,078	-	30,078
Other assets	29,240	-	29,240	11,796	-	11,796
Letters of credit	-	11,357	11,357	-	641	641
Letters of guarantee	-	227,886	227,886	-	64,690	64,690
Irrevocable commitments to extend credit	-	536,401	536,401	-	7,186	7,186
	1,412,289	775,644	2,187,933	762,900	72,517	835,417

27 Financial instruments (continued)

27.5 Credit risk (continued)

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

	2007	2007	2006	2006
	Loans & advances AED'000	Impairment AED'000	Loans & advances AED'000	Impairment AED'000
Carrying amount	708,159		348,226	
Individually impaired loans and advances				
30 - 60 days	61	61	-	-
60 - 90 days	747	747	405	405
90 - 180 days	2,126	2,126	3,866	3,866
More than 180 days	21,971	21,971	6,414	6,414
Less: allowance for individual impairment	(24,905)		(10,685)	
Carrying amount	-	24,905	-	10,685
Past due but not individually impaired				
30 - 60 days	1,118		1,540	
60 - 90 days	57		974	
90 - 180 days	44		-	
More than 180 days	4		-	
Carrying amount	1,223		2,514	
Neither past due nor individually impaired	726,849		354,822	
Less: allowance for collective impairment	(19,913)		(9,110)	
Carrying amount	708,159		348,226	

27 Financial instruments (continued)

27.5 Credit risk (continued)

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

	2007 AED'000	2006 AED'000
Against individually impaired		
Equities	-	7,031
Other	2,035	1,139
Against past due but not impaired		
Property	34,761	17,900
Equities	8,189	13,230
Other	10,807	931
Against neither past due nor impaired		
Property	176,687	123,466
Debt securities	19,162	23,904
Equities	165,489	123,031
Other	65,497	49,277
Total	482,627	359,909

The Company 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:

	2007 AED'000	2006 AED'000
Economic sector		
Trade	199,112	201,835
Construction	-	938
Real estate	174,304	59,561
Manufacturing	3,523	10,600
Transport	29,912	7,697
Retail and personal loans	213,422	85,840
Others	132,704	1,550
	752,977	368,021
Less: allowance for impairment	(44,818)	(19,795)
	708,159	348,226

The Company's loans and advances portfolio was held only in the UAE domestic market as of 31 December 2007 and 2006.

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.

27 Financial instruments (continued)

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

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

	Total 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	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	322,675	52,071	84,518	62,630	79,350	106,915
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	1,702,835	52,071	84,518	103,871	89,450	126,915
Liabilities and Equity							
Due to banks	413,538	160,000	125,000	36,725	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	76,890	91,813	-	949,467

27 Financial instruments (continued)

27.6 Liquidity risk (continued)

The maturity profile of the assets and liabilities at 31 December 2006 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	667	667	-	-	-	-	-
Due from banks	372,800	372,800	-	-	-	-	-
Investments held for trading	4,178	4,178	-	-	-	-	-
Available for sale investments	519,533	519,533	-	-	-	-	-
Loans and advances	348,226	175,355	22,480	48,575	49,023	42,571	10,222
Investment in associates	20,076	-	-	-	20,076	-	-
Interest receivable and other assets	17,296	17,296	-	-	-	-	-
Property, fixtures and equipment	30,839	-	-	-	-	10,839	20,000
Total assets	1,313,615	1,089,829	22,480	48,575	69,099	53,410	30,222
Liabilities and equity							
Due to banks	150,000	150,000	-	-	-	-	-
Customers' deposits	404,535	401,330	2,581	624	-	-	-
Provision for employees' end of service benefit	616	-	-	616	-	-	-
Interest payable and other liabilities	34,126	14,322	-	19,804	-	-	-
Equity	724,338	-	-	-	-	-	724,338
Total liabilities and equity	1,313,615	565,652	2,581	21,044	-	-	724,338

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

27 Financial instruments (continued)

27.7 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 Company cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Company 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.

27.8 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 Company with opportunity for returns through dividend income and trading gains. They have no fixed maturity or coupon rate. The fair value of these investments are based on quoted prices at close of business as of 31 December 2007.

Except as detailed below, management considers that the carrying amounts of financial assets and financial liabilities in the 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 17,672,347 (2006: AED 14,500,623) are carried at cost, of which AED 11,746,924 (2006: AED 8,575,200) 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.

27 Financial instruments (continued)

27.8 Fair value of financial instruments (continued)

Investments of AED 5,925,423 (2006: AED 5,925,423) is in a closely held company which is in the construction ancillary services sector, and is in a rapid phase of expansion. Management expects the fair value to be at least equal to the carrying value. Management intends to hold this investment until an opportune time for exit based on the Company's realisation of its growth and profitability objectives. Management considers this investment to have sufficient investor interest to be able to exit when deemed appropriate.

28 Approval of the financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 28 January 2008.