دار التمويل

FINANCE HOUSE

P.J.S.C - ش.م.ع

Annual Report 2010

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

Contents

8 - 9 Our Mission and Vision

10 - 15 Chairman's Statement

16 - 17 Board of Directors

18 - 19 Financial Highlights

20 - 24 Business Review

26 - 30 Financial Review

32 - 33 Independent Auditor's Report

Financial Statements

34 - 35 Consolidated statement of financial position

36 - 37 Consolidated income statement

38 - 39 Consolidated statement of comprehensive income

40 - 41 Consolidated statement of changes in equity

42 - 43 Consolidated statement of cash flows

44 - 79 Notes to the consolidated financial statements

Our Mission

To be responsive to our clients' needs and provide them with an exceptional financial experience through knowledgeable and dedicated staff.

Our Vision

Finance House aspires to be a leader in its chosen domains by providing unique financial products and services to pre-identified niche market segments.

Chairman's Statement

Mr. Mohammed Abdulla Alqubaisi l Chairman

On behalf of the Board of Directors, I am pleased to present Finance House's 6th Annual Report, with a combined sense of pride and satisfaction.

Economic Environment (through our eyes)

As we stepped into 2010, we had expected this year to be a year of transition for economic activity and equity markets in the UAE. The UAE economy did not disappoint, as real GDP is estimated to have grown by an impressive 2.5% in 2010. In absolute terms, nominal GDP (at current prices) is estimated to have crossed the AED 1 trillion mark for the first time since the country was established four decades ago. This is due to a sharp increase in crude prices and continued expansion in non-oil sectors, led by the industrial sector. This is despite the continued squeeze applied by the banking sector which has stifled the expansion of domestic credit. Therefore, at a macro level, the UAE economy is definitely improving and well on its way to recovery.

On the other hand, the UAE equity markets have significantly underperformed in 2010, marred by low trading volumes, hang-over from debt restructuring in Dubai and depressed real estate markets across the country. The DFM and ADX indices slipped 9.6% and 0.9% respectively in 2010. Combined overall trading volumes of both markets decreased by nearly 60% in 2010 compared to 2009.

It is obvious that the problem is in the make-up of the local equity markets and not with the macro economic fundamentals of the UAE economy as a whole. The bulk of UAE equity markets are made up of companies from the real estate & construction or banking & financial services sectors. These two sectors collectively represent more than two thirds of the combined market cap of UAE equity markets and therefore, we have seen difficulty in attracting sufficient local, regional & global investor interest that is a pre-requisite to push stock prices and indices higher.

Our reaction to this Economic Environment

By acknowledging and adapting quickly to this new reality, we shifted our focus, early in the year, towards economic sectors that were contributing positively to the growth of UAE's non-oil GDP viz. industrial, healthcare, retail, logistics, transportation, telecom and education, to name a few. The shift is consistent with our policy of growth with restraint in pre-identified niche segments. This timely shift in focus has helped us to steer clear of exposures that could have had a significant negative impact on our overall performance.

Steady Financial Performance in 2010

I summarize below the key financial outcomes of our actions for the year:

- Net profit of AED 115.1 million arising predominantly from core business activities, compared to AED 112.4 million in 2009.
- Total Assets grew to AED 3.12 billion - up 15% on the previous year.
- Shareholders' Funds stood at AED 556.5 million and this is after paying a generous cash dividend of AED 110 million during 2010, or 50 fils per share.
- Loans & Advances to customers were held at AED 1.12 billion, compared to AED 1.14 billion in 2009, which is a measure of prudence in a transitory economic environment.
- Customer deposit balances grew steadily to reach AED 1.57 billion which is a testimony to Finance House's continued credibility in the market.
- Capital Adequacy of 18% at year-end continues to be robust.

Key Achievements in 2010

The following are some of the key achievements and noteworthy developments at Finance House during 2010:

- Secured substantial medium & long-term funded facilities from major UAE and international commercial banks on reasonable terms. This is partly reflected in the value of outstanding term loans which have more than doubled to AED 308 million from AED 147 million a year ago. Significant levels of committed but as yet un-drawn bank lines give us the strength to grow our asset book in line with our growth aspirations.
- Continued strong acceptance from Corporate depositors & government institutions enabled us to maintain the steady upward trajectory in customer deposits which grew to AED 1.57 billion as at December 2010.
- Commenced execution of our clear strategy to make profitable exits from non-core private equity investments. The pace of execution gathered momentum in the last quarter of the year, although the larger financial impact of this strategy will be reflected in 2011.

- Formulated a well-defined "Fixed Income Investment Strategy" and successfully exploited attractive fixed income earning opportunities across the region for enhanced returns from our Treasury & Investment activities.

- Expanded our brick & mortar presence by commissioning our third UAE branch, strategically located in Sharjah, in line with our strategy of increased focus on the SME business segment.

- Maintained a firm grip on total operating expenses that were held flat at previous year levels, without resorting to staff retrenchments or reduction in staff pay & benefits.

- Rewarded shareholder loyalty with a stock dividend of 1 fully paid up equity share for every 4 equity shares held. This is in addition to the generous 50% cash dividend distributed during the year.

- Further reinforcement of Finance House as a resilient and respected brand in the UAE and across the GCC.

- Continued to play our role as a responsible corporate citizen in terms of making charitable contributions to worthy causes within and outside the GCC region.

Growth with Checks and Balances

Our three main business areas - Commercial & Corporate Finance, Retail Finance and Treasury & Investments - continue to complement each other, together making up an integrated portfolio of activities.

Risk is inherent to our activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and related controls. Our risk management approach is characterized by practices and frameworks that have proven to be effective and robust even under challenging economic conditions.

Comprehensive discussion and analysis of exposure to risks, coupled with periodic reviews of the quality and adequacy of risk controls throughout the year enabled us to manage risks in a rapidly changing economic and regulatory environment. We continue to review on an ongoing basis, the organization's risk profile relative to its risk appetite and changes in local economic conditions.

Our internal controls and compliance regimen ensure that our processes remain robust and dependable.

Our provisioning policy continues to be conservative and the recent changes introduced by the UAE Central Bank relative to "Classification of Loans and their Provisions" had no adverse impact on our loan loss provisioning levels.

Meeting Customer Expectations

Ultimately, our customers judge us by our ability to build trust- consistently and over the long haul. The only way we know to live up to this challenge is by providing solutions that bring value to our customers. Our business strategy is based on plain, common sense principles- hard work, clear vision and value for the customer.

Central to our success is a passion for service and unwavering commitment to the core values that bind us together. In this entrepreneurial setting, our employees are armed with the freedom and ability to set ambitious goals as they develop and deliver innovative financing solutions for our customers. 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.

Our corporate culture is one that tends to break down silos and encourages teamwork. It reinforces a "one company" mindset across Finance House. Leading Finance House to where it is today in terms of its deep rooted customer relationships would not have been possible, but for the unfailing commitment and "can deliver" attitude of our employees.

Looking Ahead

As Finance House continues to forge ahead with sharper focus and renewed growth momentum, our energies are channeled into our core businesses- commercial & corporate finance, retail finance, proprietary investments & treasury activities. We aim to remain small enough to care for our customers, our investors and our employees, but big enough to be counted as a key player in the financing business.

We remain optimistic about our ability to achieve sustained profitable growth, by continually uncovering and penetrating new niches & market segments. We will continue to review our strategy to ensure that we focus our resources on areas that we believe will deliver best value to our shareholders in the medium to long term.

Intensifying and widening political instability across the MENA region has unsettled investors and dampened business sentiment. We sincerely believe that setbacks on this count are temporary and the region as a whole will bounce back rapidly even as governments and leaders show urgency to resolve genuine grievance of the people. The UAE, which is our key focus market, has demonstrated remarkable stability under the wise leadership of His Highness Sheikh Khalifa Bin Zayed Al Nahyan. We continue to maintain a close vigil on political developments in the region and at this stage, do not envisage any material changes to our business strategies or growth objectives for 2011 and beyond.

Finally, we shall continue to build Finance House into an organization of strong leaders and dedicated professionals who always put their customers' interests above everything else. In the ultimate analysis, this alone will ensure that the success enjoyed this far will be replicated in 2011 and beyond.

With Appreciation & Gratitude

I take this opportunity to acknowledge and place on record my sincere appreciation & gratitude to all those who, for the past 6 years, have relentlessly contributed to our success:

- my fellow Board members for their sharp insight and timely guidance through the various phases of a complete economic cycle we have witnessed in our short history,
- the UAE Central Bank, the Ministry of Economy, the Securities and Commodities Authority and the Abu Dhabi Securities Exchange for their continued guidance and valuable support,
- our shareholders for their unwavering confidence and sustained loyalty,
- our management and staff for their commendable teamwork, positive attitude, dedication to duty & untiring efforts,
- and, our loyal customers for their continued patronage.

In conclusion, we express our sincere gratitude to the Government of the UAE under the visionary leadership of His Highness Sheikh Khalifa Bin Zayed Al Nahyan, President of the UAE and Ruler of Abu Dhabi, His Highness Sheikh Mohammed Bin Rashid Al Maktoum, Vice President & Prime Minister of the UAE and Ruler of Dubai, His Highness General Sheikh Mohammed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces as well as Their Highnesses, the Rulers of various Emirates and Supreme Council Members. Their progressive leadership, collective wisdom and practical guidance all contribute to the bright economic outlook, political stability and a plethora of opportunities that both individual and corporate citizens of the UAE can look forward to.

On behalf of the Board of Directors,

Mohammed Abdulla Alqubaisi
Chairman

Board of Directors

Mr. Mohammed Abdulla Alqubaisi
Chairman

Mr. Ahmad Obaid Humaid Al Mazrooei
Vice Chairman

Mr. Hamad Abdulla Rashed Al Shamsi
Member

Mr. Abdallah Ali Ibrahim Al Saadi
Member

Mr. Eisa Saif Rashid Al Qubaisi
Member

Mr. Sultan Helal Bin Drei Al Qubaisi
Member

Mr. Khaled Abdulla Alqubaisi
Member

AED' 000	2005*	2006	2007	2008	2009	2010
EARNINGS						
Net interest income	36,476	33,806	39,216	90,617	125,130	117,521
Non-interest income	237,804	181,982	255,598	401,956	80,219	90,571
Total operating income	274,280	215,788	294,814	492,573	205,349	208,092
Net income	190,454	160,604	202,809	248,849	112,409	115,088
Dividend	-	100,000	150,000	200,000	110,000	41,250
Financial Position						
Total assets	1,058,786	1,313,615	2,159,660	2,423,725	2,719,965	3,124,157
Due from Banks	230,380	372,800	629,098	535,742	696,927	950,243
Investments	619,376	543,787	755,349	494,973	649,955	674,348
Loans and advances (net)	165,782	348,226	708,159	1,153,378	1,143,277	1,117,540
Customer deposits	126,492	404,535	707,422	1,059,065	1,495,635	1,569,503
Due to Banks	77,122	150,000	321,725	272,267	67,356	207,428
Shareholders' equity	808,222	724,338	949,467	794,687	639,593	556,494
Ratios						
Earnings						
Return on equity (%)	23.6	22.2	21.4	31.3	17.6	20.7
Return on average assets (%)	18.0	13.5	11.7	10.9	4.4	3.9
Earnings per share - Basic (AED)	0.95	0.80	1.01	1.14	0.41	0.42
Cost						
Expense to Total Operating Income (%)	27.7	20.0	22.7	22.1	41.3	42.6
Capital						
Debt to Equity (times)	-	-	0.10	0.38	0.08	0.19
Total Liabilities to Shareholders' Equity (times)	0.31	0.81	1.27	2.05	3.25	4.61
Capital Adequacy Ratio (%)	72.0	67.0	43.0	37.0	23.4	18.0

*Covers 17 months (inception to 31 December 2005)

Financial Highlights

Business Review

2010 was a year of consolidation in terms of both market positioning and internal organization. There were no changes to our fundamental strategies - the continuous pursuit of profitable niche lending opportunities, sound risk management practices, prudent portfolio diversification across economic sectors, diversity in our product offerings and focus on delivering superior customer service. Our policy of growth with restraint combined with a conservative approach to liquidity management helped us to face the extended period of financial turbulence with confidence and poise. Our steady 2010 performance, atop the already robust 2009 performance is a clear vindication that we are headed in the right direction.

Following is a detailed review of our business activities during the year:

Commercial and Corporate Finance

During 2010 the credit environment continued to be a challenging one, for both borrowers and lenders. We continued to stay focused on our strategic priority in this area, which was "consolidation" as opposed to "growth-orientation". We reinforced our collection teams and stepped up our recovery processes in line with the paradigm shifts occurring in some of our corporate clients' cash flow patterns. Overall deterioration in credit quality across the market pushed up the cost of credit, due to the elevated level of credit risk. In line with this market-wide phenomenon, our yields too increased, but we continued to be very selective in our approach to taking fresh exposures and that too, only on stronger credits with robust cash flows. We continued to implement our strategy of progressively reallocating the portfolio towards a larger number of smaller exposures, in an attempt to achieve risk diversification. Intensified efforts were made at cross selling additional products and services to existing clients with a satisfactory track record. Beyond just borrowings, we widened client relationships to encompass deposits, trade finance, collection and escrow arrangements, issuance of guarantees etc. Our non-funded portfolio registered a robust growth, on the back of a steady increase in the flow of letters of credit, bid bonds, performance bonds and payment guarantees.

Retail Finance

In Jan 2010, our distribution network was expanded with the commissioning of our third branch in the UAE, strategically located near the Taawun Mall in Sharjah. This allowed us to achieve a better penetration into the consumer and small business segments of Sharjah and neighboring Ajman.

Our credit card portfolio continued to grow through the year on the basis of very selective intake, as did the Executive Finance portfolio, our personal finance offering for the middle and upper-middle class salaried segments. Both these portfolios continued to perform well generating healthy net returns. During the year we beefed up our collection and recovery efforts in the Retail Finance area and reached amicable settlement / rescheduling arrangements with Credit Card and Executive Finance customers who had fallen behind in their debt repayments.

During the year, we continued to run down our already negligible Auto Finance and Mortgage Finance books, with repayments from these portfolios redeployed into growing the Credit Card and Executive Finance portfolios.

Investments

Our proprietary portfolio of investments continues to be well-diversified across asset classes and across economic sectors. Our investment activity is regulated internally on the basis of a comprehensive investment policy. In the early part of the year, we formulated a well-defined "Fixed Income Investment Strategy" and successfully exploited attractive earning opportunities across the region for enhanced returns from our fixed income investment portfolio. During the second half of the year, we took advantage of the partial recovery in local capital markets by exiting certain positions profitably. Overall, the profit from investments was modest in comparison to the boom years but it did contribute positively to the Company's net income for the year. Our private equity portfolio remains robust due to the relatively resilient sectors we are invested in and due to the sound business strategies of the portfolio companies. We commenced execution of our clear strategy to make profitable exits from non-core private equity investments. The pace of execution gathered momentum in the last quarter of the year.

Treasury

Throughout 2010 the Company has been growing its customer deposits as well as its base of depositors comprising private and public sector companies, institutions and governmental entities. As a result, we remained highly liquid at all times and continued to be a net lender to the UAE inter-bank market throughout the year, with net positive spreads on our liquid balances. During the year we secured substantial additional medium and long-term funded facilities from major UAE and international commercial banks, on reasonable terms. Significant levels of committed, but as yet un-drawn bank lines, gives us the confidence to grow our asset book in line with our growth aspirations.

Information Technology

Security Initiatives

In April 2010, our IT department was successfully certified for compliance with ISO-27001 which represents the highest internationally accepted standard in Information Security Management System (ISMS). Moreover, in order to strengthen our IT infrastructure security, we added additional layers of Firewalls and Intrusion Prevention Systems (IPS) to protect our key applications from malicious access or hacking. With the deployment of these state-of-the-art technologies, Finance House's IT infrastructure compares favorably with those of other leading banks operating in the country.

Infrastructure Initiatives

Several initiatives were implemented during the year to boost the already high availability levels of our IT environment and to improve the overall efficiency of our IT services. Key accomplishments in this area include achieving full redundancy for the servers hosting our core banking system and deployment of the "light-branch" concept with centralized remote computer services hosted at the main data center. These initiatives resulted in 100% uptime for our IT environment in 2010 and significant improvement in the quality of IT services provided to our branches.

Operations

We continue to enhance our systems and streamline internal workflows to reduce process cycle times and to facilitate quicker responses to our clients. To this end, we completed a major upgrade to our core banking system TEMENOS T24, achieved automation of salaries & wages payment through the Wages Protection System (WPS), automated the process of bulk transfers/payments through the Central Bank of the UAE and effected significant enhancements to our Collections & Recovery Systems..

The Company is well supported by independent and competent internal audit & compliance functions that report directly into the Audit & Compliance Committee of the Board.

Risk Management

We manage our risks by seeking to ensure that our exposures in each business segment remain within our acceptable risk tolerance and that they provide an equal or higher return than the risk assumed. The risk tolerances are translated into risk limits for operational purposes. The risk appetite is collectively managed throughout the organization through adherence to our risk management policies and procedures. The risk limits are periodically reviewed to ensure that they remain within the risk appetite of the Company.

The key elements of our risk management framework are:

- Achieving stability in earnings through tight controls over credit and market exposures.
- Maintaining capital adequacy in excess of the regulatory requirement of 15%.
- Sound management of liquidity risk and interest rate risk
- Adherence to regulatory requirements.

We have not been affected by currency fluctuations, since the majority of our exposures are in AED and nearly all of our remaining exposures are in USD and USD-pegged currencies.

Corporate Governance

The Board

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

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

Committees of the Board

The two Board Committees – the Investment and Credit Committee, and the Audit and Compliance Committee – between them cover all aspects of the Company's business.

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

The Audit and Compliance Committee regularly meets to review the reports and recommendations of the independent internal audit team as well as external auditors. It also oversees compliance with applicable laws and regulatory requirements.

Human Resources

We believe that the Management of Finance House has successfully integrated its people and its operations with the Board's strategy in order to deliver successfully on its corporate mission. As a direct benefit of such integration, the Company has been able to develop a loyal employee base, as evidenced by the low staff turnover ratio over the past couple of years.

Our remuneration packages are carefully designed to attract, motivate and retain employees of high caliber, to reward them for achieving business goals and thereby enhance shareholders' value. The development and retention of UAE national human resources continues to be a prime objective for the Company.

Financial Review

Finance House's Balance Sheet, Earnings and Customers' Deposits growth continued to remain strong in 2010, its sixth year of operations, demonstrating the fundamental strength of the company's business strategy.

BALANCE SHEET

Total Assets

Total Assets grew by 15% in 2010 to reach AED 3.12 billion as at 31 December 2010 over the previous year-end figure of AED 2.72 billion.

Loans and Advances

2010 year-end Gross Loans and Advances portfolio balance was AED 1.27 billion compared to AED 1.29 billion as at the end of 2009. The overall portfolio size was held at the same level as the previous year, as a measure of prudence. Corporate and Commercial Finance loans constitute 75% of the total loan portfolio, while Retail Finance accounted for the balance. Both categories of loans carry a high credit quality, as evidenced by the relatively low levels of impaired loans. Notwithstanding the low level of impaired loans, the company has taken cognizance of the prolonged challenges to credit conditions in the market, and has adopted a very prudent approach to provisioning. Accordingly, further impairment provisions made during the year amounted to AED 7.1 million (AED 8.6 million in 2009), taking collective allowances for impairment to AED 154.8 million at year-end 2010. Total impaired loan balances written-off in 2010 amounted to AED 2.6 million, compared to AED 0.5 million in 2009.

Investments

Total Investments grew to AED 674 million compared to AED 650 million in 2009. The increase is primarily attributed to our investment property, which was completed during the year and has since been fully leased out. During the year, our stake in an associate was disposed off in full, at a profit. Viewed in the context of increased volatility in local, regional and global capital markets, the overall performance of the company's investments in 2010 has been satisfactory.

Deposits

Customers' Deposits grew to AED 1.57 billion at the year end, which represents a 5% increase over the previous year. Of this, AED 843 million represents deposits from corporate customers in the private sector and the balance AED 726 million constitutes deposits from public sector companies and institutions.

Capital Strength

Shareholders' Equity as at year-end stood at AED 556.5 million; this is after distributing a cash dividend of AED 110 million to shareholders in March 2010. Retained earnings account for 48% (AED 267 million) of the Shareholders' Equity as at 31 December 2010. This is after distributing AED 55 million during 2010 by way of bonus shares, in the ratio of one bonus share for every four shares held. The Company's Balance Sheet reflects a relatively low capital gearing ratio of 19% at year-end 2010, with significant additional borrowing capacity to fund future growth plans.

Capital Adequacy

The risk adjusted capital adequacy ratio computed in accordance with the guidelines of the Central Bank of the UAE was 18%, compared to the regulatory requirement of 15%.

INCOME STATEMENT

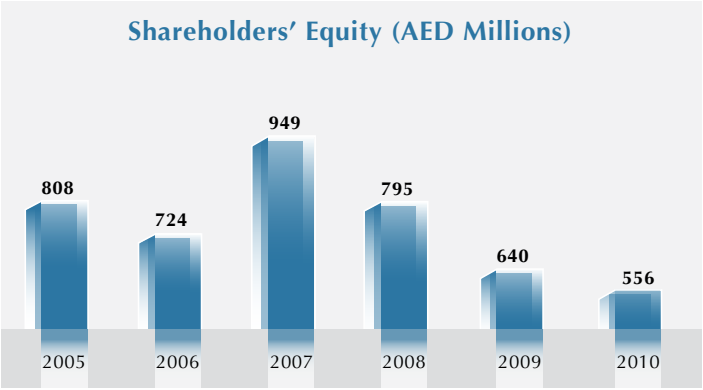
Total Operating Income for the year ended 31 December 2010 was AED 208 million and Net Profit for 2010 was AED 115.1 million, resulting in an earning of 42 fils per share (Paid Up Value: AED 1 per share).

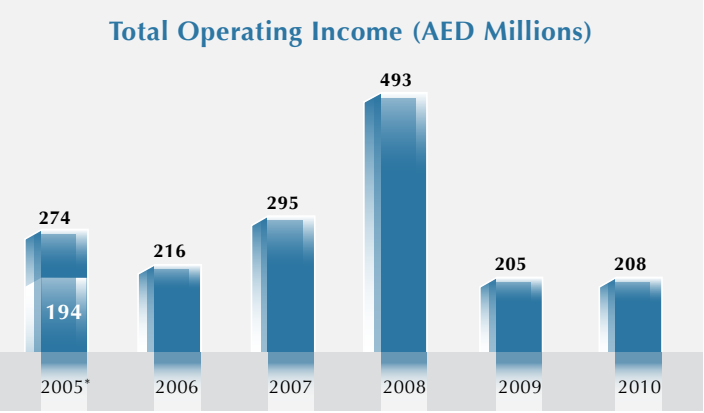
Net Profit to Total Operating Income for the year 2010 was marginally higher at 55.3% compared to 54.7% in the previous year.

Net Interest Income for 2010 was AED 117.5 million, as against AED125.1 million in the previous year. The 6% drop is primarily due to the conscious decision to hold the size of the lending book flat at the previous year level despite growth in customers' deposits, with resultant excess liquidity deployed in the inter-bank market.

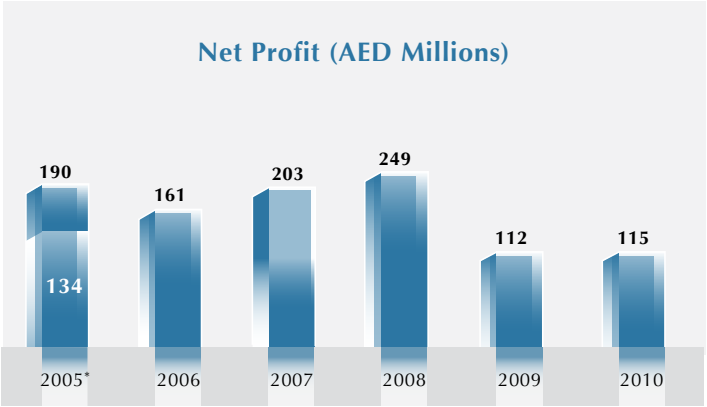
Despite increased volatility in capital markets, Gross Investment Income recorded in 2010 was AED 36.3 million compared to AED 40.6 million in 2009.

The Company implemented several measures to control and reduce expenses which resulted in Total Operating Expenses to be held flat at the same level as the previous year, despite increase in staff head count.

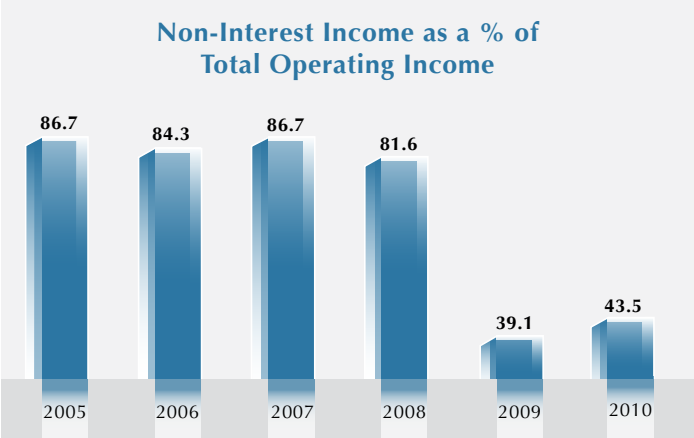


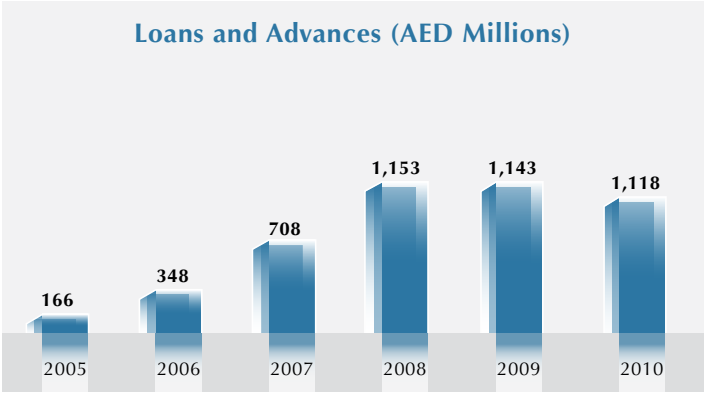


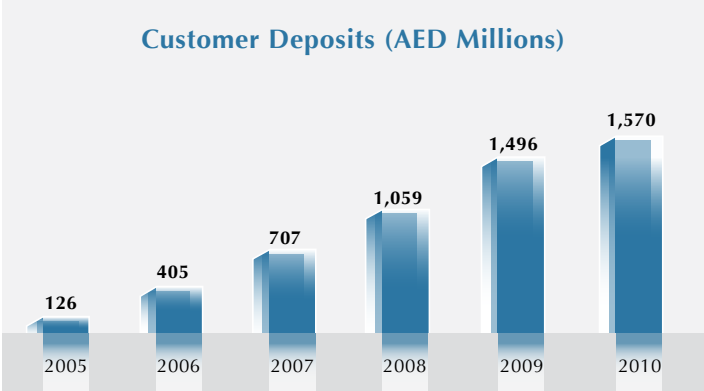
* Total Operating Income of AED 274 million is for 17 months; annualized to AED 194 million for comparison purposes.



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


Non-Interest Income as a % of
Total Operating Income
86.7
84.3
86.7
81.6
39.1
43.5
2005
2006
2007
2008
2009
2010


Loans and Advances (AED Millions)
166
348
708
1,153
1,143
1,118
2005
2006
2007
2008
2009
2010


Customer Deposits (AED Millions)
126
405
707
1,059
1,496
1,570
2005
2006
2007
2008
2009
2010

Independent Auditors' Report

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Finance House P.J.S.C. (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Group's consolidated financial statements as at 31 December 2009 were audited by another auditor whose report dated 25 January 2010 expressed an unqualified audit opinion.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Company and the UAE Commercial Companies Law of 1984 (as amended), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, 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

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of the Company; proper books of account have been kept by the Company; and the contents of the report of the Chairman relating to these consolidated financial statements are consistent with the books of account. We further report that we have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended) or of the articles of association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

Richard Mitchell
Partner
Ernst & Young
Registration No. 446

25 January 2011
Abu Dhabi, United Arab Emirates

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 AED'000	2009 AED'000
ASSETS			
Cash balances	3	**1,292**	962
Due from banks	3	**950,243**	696,927
Investments carried at fair value through other comprehensive income	4	**494,531**	-
Investments carried at fair value through profit and loss	4	**40,175**	2,407
Available for sale investments	5	**-**	535,222
Loans and advances, net	6	**1,117,540**	1,143,277
Investment in associates	7	**68,277**	64,862
Goodwill	8	**4,973**	4,973
Property, fixtures and equipment	9	**119,419**	117,529
Investment property	10	**71,365**	47,464
Interest receivable and other assets	11	**256,342**	106,342
TOTAL ASSETS		**3,124,157**	2,719,965
LIABILITIES			
Customers' deposits	12	**1,569,503**	1,495,635
Due to banks	3	**207,428**	67,356
Term loans	13	**307,933**	146,839
Interest payable and other liabilities	14	**477,181**	366,497
Provision for employees' end of service benefits		**5,618**	4,045
TOTAL LIABILITIES		**2,567,663**	2,080,372
EQUITY			
Share capital	15	**275,000**	220,000
Employees' share-based payment scheme	16	**(1,750)**	(1,750)
Statutory reserve	17	**103,021**	91,512
Revaluation reserve		**18,962**	23,762
Cumulative changes in fair value of investments carried at fair value through other comprehensive income		**(114,444)**	(35,274)
Retained earnings		**266,722**	332,326
Proposed directors' remuneration		**8,983**	9,017
TOTAL EQUITY		**556,494**	639,593
TOTAL LIABILITIES AND EQUITY		**3,124,157**	2,719,965
Commitments and contingent liabilities	20	**873,655**	685,238

Mr. Mohammed Alqubaisi
CHAIRMAN

Mr. Hamid Taylor
GENERAL MANAGER

The attached notes 1 to 32 form part of these consolidated financial statements.

	Notes	2010 AED'000	2009 AED'000
Interest income		**192,011**	204,231
Interest expense		**(74,490)**	(79,101)
Net interest income	21	**117,521**	125,130
Fee and commission income		**30,454**	26,252
Fee and commission expense		**(10,205)**	(7,225)
Net fee and commission income	22	**20,249**	19,027
Contract revenue		**119,303**	92,868
Contract costs		**(111,891)**	(80,542)
Net contract income		**7,412**	12,326
Dividend income from investments carried at fair value through other comprehensive income		**9,116**	-
Net income from investments carried at fair value through profit and loss	23	**23,069**	726
Net income from available for sale investments	24	**-**	23,101
Gain on fair valuation of investment property	10	**1,400**	5,600
Share of profit of associates	7	**2,697**	11,128
Other operating income	18	**26,628**	8,311
Total operating income		**208,092**	205,349
Salaries and employee related expenses		**(55,513)**	(57,806)
Depreciation of property, fixtures and equipment	9	**(6,563)**	(4,948)
Other general and administrative expenses		**(26,468)**	(22,022)
Allowance for impairment of loans and advances, net	6	**(4,460)**	(8,164)
Total operating expenses and allowances		**(93,004)**	(92,940)
Profit for the year		**115,088**	112,409
Basic and diluted earnings per share attributable to ordinary shares (AED)	25	**AED 0.42**	AED 0.41

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated Income Statement

Year ended 31 December 2010

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	Notes	2010 AED'000	2009 AED'000
Net profit for the year		**115,088**	112,409
Other comprehensive income			
Decrease in fair value of available for sale investments	5	-	(33,566)
Realised gain on disposal of available for sale investments	5	-	(3,367)
Net loss on financial assets measured at fair value through other comprehensive income		**(79,170)**	-
Directors' remuneration paid		**(9,017)**	(21,296)
Other comprehensive loss for the year		**(88,187)**	(58,229)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**26,901**	54,180

The attached notes 1 to 32 form part of these consolidated financial statements.

FINANCE HOUSE P.J.S.C.

	Share capital AED'000	Employees share-based payment scheme AED'000	Statutory reserve AED'000	Revaluation reserve AED'000	Cumulative changes in fair value* AED'000	Retained earnings AED'000	Proposed directors' remuneration AED'000	Attributable to shareholders of the parent company AED'000	Non controlling interest AED'000	Total AED'000
2009										
Balance at 1 January 2009	220,000	(1,750)	80,271	40,906	1,659	420,975	21,296	783,357	11,330	794,687
Net profit for the year	-	-	-	-	-	112,409	-	112,409	-	112,409
Decrease in fair value of available for sale investments	-	-	-	-	(33,566)	-	-	(33,566)	-	(33,566)
Realised gain on sale of available for sale investments	-	-	-	-	(3,367)	-	-	(3,367)	-	(3,367)
Transfer on account of investment property	-	-	-	(19,200)	-	19,200	-	-	-	-
Directors remuneration paid	-	-	-	-	-	-	(21,296)	(21,296)	-	(21,296)
Proposed directors' remuneration	-	-	-	-	-	(9,017)	9,017	-	-	-
Total comprehensive income for the year	-	-	-	(19,200)	(36,933)	122,592	(12,279)	54,180	-	54,180
Dividend paid	-	-	-	-	-	(200,000)	-	(200,000)	-	(200,000)
Transfer to statutory reserve	-	-	11,241	-	-	(11,241)	-	-	-	-
Acquisition of non controlling interest	-	-	-	2,056	-	-	-	2,056	(11,330)	(9,274)
Balance at 31 December 2009	220,000	(1,750)	91,512	23,762	(35,274)	332,326	9,017	639,593	-	639,593
2010										
Balance at 1 January 2010	220,000	(1,750)	91,512	23,762	(35,274)	332,326	9,017	639,593	-	639,593
Net profit for the year	-	-	-	-	-	115,088	-	115,088	-	115,088
Decrease in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	(79,170)	-	-	(79,170)	-	(79,170)
Directors' remuneration paid	-	-	-	-	-	-	(9,017)	(9,017)	-	(9,017)
Proposed directors' remuneration	-	-	-	-	-	(8,983)	8,983	-	-	-
Transfer on account of investment property	-	-	-	(4,800)	-	4,800	-	-	-	-
Total comprehensive income for the year	-	-	-	(4,800)	(79,170)	110,905	(34)	26,901	-	26,901
Cash dividend paid	-	-	-	-	-	(110,000)	-	(110,000)	-	(110,000)
Transfer to statutory reserve	-	-	11,509	-	-	(11,509)	-	-	-	-
Stock dividend paid	55,000	-	-	-	-	(55,000)	-	-	-	-
Balance at 31 December 2010	**275,000**	**(1,750)**	**103,021**	**18,962**	**(114,444)**	**266,722**	**8,983**	**556,494**	**-**	**556,494**

*This represents fair value changes of financial assets measured at fair value through other comprehensive income for 2010 and changes in fair value of available for sale investments for 2009

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 AED'000	2009 AED'000
OPERATING ACTIVITIES			
Profit for the year		**115,088**	112,409
Non cash adjustments for:			
Depreciation		**6,563**	4,948
Gain on fair valuation of investment property		**(1,400)**	(5,600)
Share of profit of associates		**(2,697)**	(11,128)
Reversal of provision for contract losses		**(5,242)**	(12,120)
Allowance for impairment of loans and advances		**4,460**	8,164
Net movement in provision for employees' end of service benefits		**1,573**	1,726
Working capital adjustments:			
Increase in due from banks maturing after three months		**(236,807)**	(250,855)
Proceeds from sale of investments carried through profit and loss		**242,864**	-
Purchase / transfer of investment carried at fair value through profit and loss		**(258,239)**	(218)
Decrease in loans and advances		**21,277**	1,937
Increase in goodwill		**-**	(4,973)
Increase (decrease) in due to banks maturing after three months		**139,574**	(205,000)
Increase in term loans		**161,094**	47,644
Increase in interest receivable and other assets		**(150,000)**	(20,654)
Increase in customers' deposits		**73,868**	436,570
Increase in interest payable and other liabilities		**115,926**	182,425
Dividend income from investment carried through other comprehensive income		**(9,116)**	-
Dividend income from investments available for sale		**-**	(6,452)
Dividend income from investment carried at fair value through profit and loss		**(676)**	(39)
Gain on disposal of investments carried at fair value through profit and loss		**(20,643)**	**-**
Gain on disposal of investments carried at fair value through other comprehensive income		**-**	**(16,649)**
Unrealised gain on investments carried at fair value through profit and loss		**(1,750)**	(687)
Net cash from operating activities		**195,717**	261,448
INVESTING ACTIVITIES			
Proceeds from disposal of available for sale investments		**-**	301,588
Purchase of available for sale investments		**-**	(418,427)
Purchase of investments carried at fair value through other comprehensive income		**(38,479)**	-
Addition to investment property		**(10,663)**	-
Purchase of property, fixtures and equipment		**(20,291)**	(12,415)
Purchase of investment in associates		**(10,643)**	-
Disposal of investment in associates		**9,225**	1,070
Dividend income received		**10,492**	6,491
Net cash used in investing activities		**(60,359)**	(121,693)
FINANCING ACTIVITIES			
Directors remuneration paid		**(9,017)**	(21,296)
Dividend paid		**(110,000)**	(200,000)
Non controlling interest		**-**	(9,274)
Net cash used in financing activities		**(119,017)**	(230,570)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3	**16,341**	(90,815)
Cash and cash equivalents at the beginning of the year		**444,678**	535,493
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3	**461.019**	444.678

The attached notes 1 to 32 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. ACTIVITIES

Finance House P.J.S.C. (the "Company") is a Public Joint Stock Company incorporated in Abu Dhabi, United Arab Emirates (U.A.E.) in accordance with the provisions of the U.A.E. Federal Commercial Companies Law No. (8) of 1984 (as amended), the U.A.E. 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 U.A.E. 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 Dubai and Sharjah branches. The principal activities of the Company consist of investments, consumer and commercial financing and other related services.

The registered head office of the Company is at P.O. Box 7878, Abu Dhabi, U.A.E.

The consolidated financial statements of the Group were authorised for issue by the Board of Directors on 25th January 2011.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of the laws in the U.A.E.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments and properties which are carried at fair values.

The consolidated financial statements of the Group are prepared in U.A.E. Dirhams (AED) which is the functional currency of the Group.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and those of its following subsidiaries:

Name of subsidiary	*Country of incorporation*	*Ownership interest %*	*Principal activity*
Third Vision Investment L.L.C.	U.A.E.	100	Own and manage head office premises
Benyan Development Co. L.L.C.	U.A.E.	100	Construction
Emirates National Electromechanical L.L.C.	U.A.E.	100	Electromechanical contracting
FH Capital Limited (D.I.F.C.)	U.A.E.	100	Investment and asset management

The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010 which do not have any significant impact on the financial statements:

- IFRS 2 Shared-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31, and IAS 39

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies (continued)

- IFRS 9 Financial Instruments
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009
- IFRIC 17 Distribution of Non-cash Assets to Owners effective 1 July 2009
- Improvements to IFRSs (April 2009)

With the exception of IFRS 9 (see below) the adoption of the above standards and interpretations did not have any effect on the financial performance or position of the Group.

IFRS 9 Financial Instruments

In October 2010, the International Accounting Standards Board ("IASB") completed the first phase of IFRS 9 Financial Instruments ("IFRS 9" or the "Standard") which will eventually replace IAS 39 Financial Instruments: Recognition and Measurement.

The adoption of IFRS 9 is not mandatory until 1 January 2013. However, the Company has voluntarily adopted the Standard for the year ended 31 December 2010. The Company has chosen to use 1 January 2010 as its date of initial application of IFRS 9. Effective 1 January 2010, the Group's accounting policies for the financial instruments are set out as follows:

Financial instruments – initial recognition and subsequent measurement

Date of recognition
All financial assets and liabilities are initially recognised on the trade date, i.e. the date that the Company becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Initial measurement
All financial instruments are initially measured at their fair value plus transaction costs, except for those financial assets and financial liabilities measured at fair value through profit or loss.

Subsequent measurement
The subsequent measurement of financial assets depends on the Company's business model for managing those financial assets and their contractual cash flow characteristics.

Transaction costs expected to be incurred on transfer or disposal of a financial instrument are not included in the measurement of the financial instrument.

Financial assets measured at amortised cost

Financial assets are measured at amortised cost only if the asset is held within a business model whose objective is to hold the asset to collect its contractual cash flows and that the contractual terms of the financial asset give rise, on specified dates, to cash flows constituting solely principal and interest on the outstanding principal amount. An inability to meet these two criteria requires the financial asset to be subsequently measured at fair value through profit or loss. However, even where both conditions are met, the Company may elect upon initial recognition to measure the financial asset at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

Debt instruments (including derivatives embedded in financial host assets) meeting these criteria are subsequently measured at amortised cost using the effective interest rate method, adjusted for any impairment charges and transaction costs incurred upon initial recognition. The effective interest rate method calculates an interest rate which exactly discounts estimated future cash receipts through the expected life of the financial asset or a shorter period (where appropriate) to the net carrying amount of the financial asset. After initial measurement at fair value, amounts due from banks and loans and advances are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate method. The amortisation is included in interest income in the income statement. The losses arising from impairment are recognised in the income statement in allowance for impairment of loans and advances.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 Financial Instruments (continued)

Other financial assets measured at fair value through profit or loss

Financial assets which do not meet the amortised cost criteria such as derivatives and financial assets held for trading are measured at fair value through profit or loss. Gains or losses arising on subsequent measurement of these financial assets are recognised in the income statement. The Company determines an asset's fair value in accordance with the Company's accounting policy on fair value as discussed in note 30.

Financial assets or financial liabilities held-for-trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend is recorded in net trading income according to the terms of the contract, or when the right to the payment has been established.

Equity investments at fair value through other comprehensive income

Equity investments not held for trading can be designated as being measured at fair value through other comprehensive income at initial recognition and such an election is irrevocable. This designation is made on an instrument-by-instrument basis. Gains or losses arising on subsequent measurement of these equity investments are recognised in other comprehensive income. The gain or loss on disposal of the asset is reclassified to retained earnings and is not recycled to profit or loss. Transaction costs on disposal are taken to the income statement. Dividends received on these equity investments are recognised in the income statement unless the dividend represents recovery of the cost of the investment.

Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management at initial recognition. Management may designate a financial asset at fair value through profit or loss upon initial recognition only when the first of the following criteria are met. A financial liability may be so designated when any of the three criteria are met. Designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in net gain or loss on financial assets and liabilities designated at fair value through profit or loss, except that the fair value change attributable to credit risk in respect of the financial liabilities is recognised in other comprehensive income, provided that there is no measurement mismatch arising from such recognition. Interest earned or incurred is accrued in interest income or interest expense, respectively, using the effective interest rate method, while dividend income is recorded in other operating income when the right to the payment has been established.

The management of the Company has reviewed and assessed all of its existing financial assets as at the date of initial application of IFRS 9. The reclassification of financial assets on initial application of IFRS 9 changed either the measurement basis and/or the policy for the recognition of gains or losses for the following financial assets of the Company:

- Equity instruments amounting to AED 439,152 thousand as at 1 January 2010, that were previously measured at fair value and classified as available-for-sale, have been reclassified to fair value through other comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 Financial Instruments (continued)

Financial assets and financial liabilities designated at fair value through profit or loss (continued)

- Equity instruments amounting to AED 96,070 thousand as at 1 January 2010, that were previously measured at fair value and classified as available-for-sale, have been reclassified to fair value through profit or loss.

The impact of adopting IFRS 9 has been effected in the current year without prior period restatement in accordance with IFRS 9. The disposals of investments at fair value through other comprehensive income during the year, resulting in a gain amounting to AED nil, and decrease in fair value amounting to AED 79,170 thousand, were recognised in the statement of other comprehensive income.

Future changes in accounting policies

The following IASB Standard and amendments have been issued but are not yet mandatory, and have not yet been adopted by the Group:

- IAS 24 Related Party Disclosures (Amendment)
- IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)
- IFRIC 14 Prepayments of a minimum funding requirement (Amendment)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Improvements to IFRSs (issued in May 2010)

Investment in associates

The Group's investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Losses in excess of the cost of the investment in an associate are recognised when the Group has incurred obligations on its behalf.

The Group's share of the result of operations of associates is included in the consolidated income statement. Unrealized profits and losses from transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 Financial Instruments (continued)

Property, fixtures and equipment

Property, fixtures and equipment are initially recorded at cost. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount and, where carrying values exceed the recoverable amount, assets are written down. Land is measured at fair value based on valuations performed by independent professional valuers. Valuations are performed frequently to ensure that the fair value of revalued land does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve included in the equity section of the consolidated statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve.

Depreciation is provided on a straight-line basis on all property and equipment, other than freehold land which is determined to have an indefinite life.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

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

Capital work-in progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated.

Investment property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

Employees' end of service benefits

The Group provides end of service benefits for its employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its U.A.E. national employees, the Group makes contributions to the relevant government pension scheme, calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Provisions

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into AED at rates of exchange prevailing at the balance sheet date. Any gains and losses are taken to the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of foreign operations are translated into the Group's presentation currency at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognised in the equity relating to a particular foreign operation is recognised in the consolidated income statement.

Recognition of income and expenses

Interest
For all financial instruments measured at amortised cost and interest bearing financial instruments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised.

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
Revenue is recognised when the Group's right to receive the payment is established.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and balances with the U.A.E. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

As described above the Company has early adopted IFRS 9 but elected not to restate prior year comparatives. This section describes the accounting policies for financial instruments that are applicable to prior year comparatives. Financial assets were classified into the following specified categories: financial assets 'at fair value through profit or loss', 'available-for-sale' 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.

Financial assets at fair value through profit or loss
Financial assets are classified as at fair value through profit or loss where the financial asset is either held for trading or it is designated as at fair value through profit or loss.

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

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial assets at fair value through profit or loss 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 30.

Available for sale financial assets
Quoted and unquoted shares held by the Group that are traded in an active market but not intended to be traded frequently, are classified as being fair value through other comprehensive income and are stated at fair value. Fair value is determined in the manner described in note 30.

Gains and losses arising from changes in fair value are recognised in other comprehensive income in the 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 revaluation reserve is included in profit or loss for the period.

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

The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in other comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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.

Due from banks

Due from banks are stated at amortised cost using the effective interest rate less any amounts written off and provision for impairment.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period.

Individually assessed loans
Individually assessed loans represent mainly corporate and commercial loans which are assessed individually and classified by the credit risk unit in order to determine whether any objective evidence exists that a loan is impaired. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. Impairment loss is calculated as the difference between the loan's carrying value and its present impaired value.

Collectively assessed loans
Impairment losses of collectively assessed loans include the allowances calculated on:

- Performing loans
- Retail loans with common features and which are not individually significant

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

Impairment loss includes losses which may arise from individual performing loans that were impaired at the end of the reporting period but were not specifically identified as such as at that date. The estimated impairment is calculated by the Group's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

Retail loans with common features and which are not individually significant
Impairment of retail loans is calculated by the Group's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Derecognition of financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement: and either:
  - the Group has transferred substantially all the risks and rewards of the asset, or
  - the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the group's continuing involvement in the asset. In that case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to repay.

Financial liabilities and equity instruments

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

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

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

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

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

Derecognition of financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Fair values

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and ask prices are used for liabilities. The fair value of investments in mutual funds, private equity funds or similar investment vehicles are based on the last net asset value published by the fund manager. For other investments, a reasonable estimate of the fair value is determined by reference to the price of recent market transactions involving such investments, current market value of instruments which are substantially the same, or is based on the expected discounted cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values (continued)

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

The fair value of forward exchange contracts is calculated by reference to forward exchange rates with similar maturities. For other derivatives without quoted prices in an active market, fair value is determined based on quotations received from counterparty financial institutions or established third party valuation models.

The fair value of unquoted investments is determined by reference to discounted cash flows, pricing models, net asset base of investee companies or broker over-the-counter quotes.

In the process of applying the Group's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Construction contracts

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

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

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

Significant accounting judgements and estimates

Classification of investment properties under construction
Management decides, on acquisition of a property, whether it should be classified as investment property, property and equipment or as property held for sale.

Properties acquired by the Group are recorded as investment properties if these were acquired for rental purposes or capital appreciation.

Properties held for own use are recorded as property, fixtures and equipment.

Properties are recorded as held for sale if their carrying amounts will be recovered through a sale transaction.

Classification of investments
Management decides on acquisition of an investment whether it should be classified as investments carried at fair value through other comprehensive income or fair value through profit or loss.

The Group classifies investments as fair value through profit or loss if they are acquired primarily for the purpose of making a short term profit by the dealers.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates (continued)

Classification of investments (continued)

Classification of investments as fair value through income statement depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through income statement.

All other investments are classified as fair value through other comprehensive income.

Impairment of investments
The Group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgement for which management takes into consideration, amongst other factors, share price volatility and the underlying asset base of the investee companies.

Impairment losses on loans and advances
The Group reviews its problem loans and advances on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on loans and advances
In addition to specific provisions against individually significant loans and advances, the Group also makes a collective impairment provision against loans and advances which, although not specifically identified as requiring a specific provision have a greater risk of default than when originally granted. The amount of the provision is based on the historical loss pattern for loans and advances and is adjusted to reflect current economic changes.

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

Fair value of unquoted available for sale investments
As described in note 30, the management uses their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Such financial instruments are valued using discounted cash flow and capitalisation of sustainable earnings analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unquoted shares include some assumptions not supported by observable market prices or rates. Details of assumptions used and of the results of sensitivity analysis regarding these assumptions are provided in note 30.

3. CASH AND CASH EQUIVALENTS

	2010 AED'000	2009 AED'000
Due from banks		
Current and demand accounts	**45,453**	25,939
Fixed placements	**898,662**	660,855
Call accounts	**6,128**	10,133
	950,243	696,927
Cash balances	**1,292**	962
Due to banks maturing within three months (deposits)	**(2,854)**	(2,356)
Due from banks maturing after three months	**(487,662)**	(250,855)
Net cash and cash equivalents	**461,019**	444,678

Fixed placements with banks of AED 487,662 thousand (2009: AED 250,855 thousand) and due to banks of AED 204,574 thousand (2009: AED 65,000 thousand) are due to mature after three months from the date of placement and are not included in cash and cash equivalents.

4. INVESTMENTS CARRIED AT FAIR VALUE

	2010 AED'000	2009 AED'000
Investments carried at fair value through other comprehensive income		
UAE	**485,683**	-
Outside UAE	**8,848**	-
	494,531	-
Investments carried at fair value through profit and loss	**40,175**	2,407

5. AVAILABLE FOR SALE INVESTMENTS

Available for sale investments comprise:

	2010 AED'000	2009 AED'000
Investments in quoted securities	**-**	384,536
Investments in unquoted securities – at fair value	**-**	96,300
Investments in unquoted securities – at cost	**-**	71,286
	-	552,122
Less: allowance for impairment	**-**	(16,900)
	-	535,222

5. AVAILABLE FOR SALE INVESTMENTS (continued)

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

	2010 AED'000	*2009 AED'000*
Opening balance	-	438,667
Cost of shares purchased	-	418,427
Cost of shares disposed (note 24)	-	(284,939)
Fair value gain released on shares disposed during the year	-	(3,367)
Net decrease in fair value	-	(33,566)
Fair value	-	535,222
Less: allowance for impairment	-	-
	-	535,222

Included in available for sale investments is an amount of AED nil (2009: AED 6,385 thousand) representing investments in foreign securities. Included in unquoted investments carried at cost is an Islamic investment in a profit bearing convertible bond of Islamic Finance House P.V.T-J.S.C., a related party.

6. LOANS AND ADVANCES, NET

	2010 AED'000	*2009 AED'000*
Commercial loans	**948,835**	948,296
Retail finance	**323,520**	345,336
	1,272,355	1,293,632
Less: allowance for impairment	**(154,815)**	(150,355)
	1,117,540	1,143,277

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

	2010 AED'000	*2009 AED'000*
At 1 January	**150,355**	142,191
Charge for the year	**7,066**	8,625
Less: Amounts written off during the year	**(2,606)**	(461)
At 31 December	**154,815**	150,355

7. INVESTMENT IN ASSOCIATES

The Group has the following investments in associates

	Percentage of holding	
	2010	2009
Gulf National Securities Center L.L.C.	**25%**	10%
The Financial Corporation S.A.O.G.	**22.22%**	22.22%
Mainland Management L.L.C.	**33.33%**	33.33%
Sawaeed Investment L.L.C.	**25%**	25%
Mountain Gate Property Investment L.L.C.	**-**	25%

Gulf National Securities Center L.L.C. is incorporated in the U.A.E. and provides brokerage services in local stocks and commodities.

The Financial Corporation S.A.O.G. is incorporated in Sultanate of Oman and is engaged in asset management and trading services.

Mainland Management L.L.C. is incorporated in the U.A.E. and provides hospitality management services.

Sawaeed Investment L.L.C. is incorporated in the U.A.E. and is engaged in labour accommodation services.

Mountain Gate Property Investment L.L.C. is incorporated in the U.A.E. and is engaged in labour accommodation services.

For the purpose of applying the equity method of accounting, the financial statements of the associates as at 30 September 2010 have been used. Adjustments for significant transactions and events, if any, between 1 October 2010 and 31 December 2010 have been made to reflect the financial position as of 31 December 2010.

The fair value of the Group's investment in The Financial Corporation S.A.O.G., which is listed in Muscat Securities Market in the Sultanate of Oman, as of 31 December 2010 is AED 20,644 thousand (31 December 2009: AED 34,319 thousand).

The Group exercise significant influence on Gulf National Securities Center L.L.C. through its representation in the Board of Directors of this Company and accordingly has been accounted for as an associate in 2010 and 2009.

During the year, the Group's stake in Mountain Gate Property Investment L.L.C. was disposed off in full.

7. INVESTMENT IN ASSOCIATES (continued)

Summarised financial information on investment in associates is set out below.

	2010 AED'000	*2009 AED'000*
Associates' balance sheet		
Assets	**365,007**	458,507
Liabilities	**(147,677)**	(198,010)
Net assets	**217,330**	260,497
Group's share of net assets	**55,275**	63,218
Goodwill arising on acquisition	**13,002**	1,644
Carrying amount of investment in associates	**68,277**	64,862
Associates' revenue and profit:		
Revenue	**18,585**	25,686
Profit for the year	**15,801**	28,795
Group's share of net profit for the year	**2,697**	11,128

As of 31 December 2010, the Group's share of the contingent liabilities of associates amounted to AED 5,000 thousand (2009: AED 5,000 thousand).

8. GOODWILL

On 27 January 2009 and 28 September 2009, the Company acquired an additional 35% and 5% shareholding respectively in Third Vision Investment L.L.C., a subsidiary. The principal activities of the subsidiary are ownership and management of head office premises.

Payment consideration

	AED'000
Purchase consideration in cash and cash equivalents	33,098
Fair value of net assets acquired	(28,125)
Goodwill recognised	4,973

9. PROPERTY, FIXTURES AND EQUIPMENT

	Freehold land	*Furniture fixtures & equipment*	*Motor vehicles*	*Computer hardware & software*	*Capital work in progress*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*
2010						
Cost or valuation						
At 1 January 2010	90,467	24,284	4,996	14,111	12,066	145,924
Additions during the year	-	4,411	328	1,706	13,846	20,291
Transfer to investment property (note 10)	(4,800)	-	-	-	(7,038)	(11,838)
At 31 December 2010	**85,667**	**28,695**	**5,324**	**15,817**	**18,874**	**154,377**
Accumulated depreciation:						
At 1 January 2010	-	14,543	2,347	11,505	-	28,395
Charge for the year	-	3,775	1,115	1,673	-	6,563
At 31 December 2010	**-**	**18,318**	**3,462**	**13,178**	**-**	**34,958**
Net book value:						
At 31 December 2010	**85,667**	**10,377**	**1,862**	**2,639**	**18,874**	**119,419**
2009						
Cost or valuation						
At 1 January 2009	118,880	22,971	4,785	13,765	12,882	173,283
Additions during the year	-	1,313	211	346	21,848	23,718
Revaluation gain	(9,213)	-	-	-	-	(9,213)
Transfer to investment property (note 10)	(19,200)	-	-	-	(22,664)	(41,864)
At 31 December 2009	90,467	24,284	4,996	14,111	12,066	145,924
Accumulated depreciation:						
At 1 January 2009	-	11,042	1,295	9,020	-	21,357
Charge for the year	-	3,501	1,052	2,485	-	7,038
At 31 December 2009	-	14,543	2,347	11,505	-	28,395
Net book value:						
At 31 December 2009	90,467	9,741	2,649	2,606	12,066	117,529

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

9. PROPERTY, FIXTURES AND EQUIPMENT (continued)

The fair values of land are based on valuations carried out during 2009 by independent valuers not related to the Group. The independent valuers have the appropriate qualifications and recent experience in the valuation of properties in the relevant location. The valuation was arrived at using the sales comparison method.

Capital work in progress mainly pertains to the construction of the office premises on the freehold plots of land. Depreciation cost of AED nil (2009: AED 2,090 thousand) is treated as part of contract costs.

10. INVESTMENT PROPERTY

	Capital work in progress	
	2010 AED'000	*2009 AED'000*
Opening balance	**47,464**	-
Addition during the year	**10,663**	-
Transfer from property, fixtures and equipment (note 9)	**11,838**	41,864
Gain on fair valuation of investment property	**1,400**	5,600
Closing balance (at fair value)	**71,365**	47,464

Capital work in progress pertains to the construction of the office premises on the freehold plots of land.

The fair value of land is based on a valuation carried out on 5 November 2009 by independent valuers not related to the Group. The independent valuers have the appropriate qualifications and recent experience in the valuation of properties in the relevant location. The valuation was arrived at using the sales comparison method.

11. INTEREST RECEIVABLE AND OTHER ASSETS

	2010 AED'000	*2009 AED'000*
Interest receivable	**72,874**	46,031
Prepayments	**19,206**	15,607
Advance for investments	**94,159**	-
Accounts receivable	**34,779**	34,951
Amounts due from customers under construction contracts (note 27)	**27,635**	1,638
Other assets	**7,689**	8,115
	256,342	106,342

Advance for investments represents amounts that were paid to acquire certain equity investments for which the necessary legal procedures to transfer the ownership were in progress at the end of the reporting period.

12. CUSTOMERS' DEPOSITS

	2010 AED'000	2009 AED'000
Call and demand deposits	**36,331**	83,115
Time deposits	**1,533,172**	1,412,520
	1,569,503	1,495,635

13. TERM LOANS

	2010 AED'000	2009 AED'000
From local commercial banks (i)	**152,157**	55,010
From international commercial banks (ii)	**155,776**	91,829
	307,933	146,839

(i) Term loans of AED 100,000 thousand and AED 50,000 thousand have been obtained from local commercial banks during 2010. These loans will be repaid during 2011 and 2012 respectively.

(ii) Term loans amounting to AED 155,776 thousand have been obtained from international commercial banks in 2010. These loans will be repaid within 2 -3 years.

14. INTEREST PAYABLE AND OTHER LIABILITIES

	2010 AED'000	2009 AED'000
Interest payable	**22,976**	35,115
Accrued expenses	**53,563**	67,305
Margin accounts	**213,757**	143,576
Provision for estimated contract losses	**3,225**	8,530
Other liabilities	**183,660**	111,971
	477,181	366,497

15. SHARE CAPITAL

	Issued and fully paid	
	2010 AED'000	2009 AED'000
Authorised, issued and fully paid		
275 million shares (2009: 220 million shares) of AED 1 each (31 December 2009: AED 1 each)	**275,000**	220,000

In the annual general meeting held on 28 February 2010, the shareholders approved the distribution of bonus shares equal to 25% of the nominal value of the shares in the ratio of one bonus share for every four shares held amounting to AED 55,000 thousand.

16. EMPLOYEES' SHARE-BASED PAYMENT SCHEME

The share-based payment scheme is administered by a trustee and gives the Board of Directors the authority to determine which employees of the Group will be granted the shares. The values 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, nil shares (2009: nil shares) were granted to employees and outstanding shares not yet granted to employees as of 31 December 2010 were 1,650 thousand (31 December 2009: 1,650 thousand).

17. STATUTORY RESERVE

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

18. OTHER OPERATING INCOME

Included in other operating income is an amount of AED 16.9 million (2009: nil) which represents the reversal of certain investment related provisions.

19. DIVIDEND

In 2010, a dividend of AED 50 fils per share (total dividend AED 110 million) was paid to holders of fully paid ordinary shares. In 2009, the dividend paid was 75 fils per share (total dividend AED 150 million).

20. COMMITMENTS AND CONTINGENT LIABILITIES

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

	2010 AED'000	*2009 AED'000*
Letters of credit	**38,198**	11,841
Letters of guarantee	**736,253**	535,272
Capital commitments	**29,390**	36,892
Irrevocable commitments to extend credit	**69,814**	101,233
	873,655	685,238

21. NET INTEREST INCOME

	2010 AED'000	2009 AED'000
Interest income		
Due from banks	**28,102**	35,610
Loans and advances	**159,581**	167,452
Others	**4,328**	1,169
	192,011	204,231
Interest expense		
Customer deposits	**(64,492)**	(68,998)
Due to banks	**(9,998)**	(10,103)
	(74,490)	(79,101)
Net interest income	**117,521**	125,130

No interest income is recognised on impaired loans and advances.

22. NET FEE AND COMMISSION INCOME

	2010 AED'000	2009 AED'000
Fee and commission income		
Corporate and commercial finance activities	**12,843**	14,693
Retail finance activities	**17,611**	11,559
	30,454	26,252
Fee and commission expense	**(10,205)**	(7,225)
Net fee and commission income	**20,249**	19,027

23. NET INCOME FROM INVESTMENTS CARRIED AT FAIR VALUE THROUGH PROFIT AND LOSS

	2010 AED'000	2009 AED'000
Gain on disposal of investments carried at fair value through profit and loss	**20,643**	-
Unrealised gain on investments carried at fair value through profit and loss	**1,750**	687
Dividends on investments carried at fair value through profit and loss	**676**	39
Net income from investments carried at fair value through profit and loss	**23,069**	726

24. NET INCOME FROM AVAILABLE FOR SALE INVESTMENTS

	2010 AED'000	2009 AED'000
Sales proceeds from disposal	-	301,588
Cost of shares disposed (note 5)	-	(284,939)
	-	16,649
Dividends on available for sale investments	-	6,452
Net income from available for sale investments	-	23,101

25. BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year. Diluted earnings per share is determined by adjusting the net profit and the weighted average number of shares outstanding, adjusted for the effects of all dilutive potential ordinary shares. As of 31 December 2010, the Company has not issued any instruments which would have a dilutive impact on earnings per share when converted or exercised.
The calculation of basic and diluted earnings per share is based on the following data:

	2010 AED'000	2009 AED'000
Net profit for the year (AED '000)	**115,088**	112,409
Number of ordinary shares in issue ('000)	**275,000**	275,000
Earnings per share (AED)	**0.42**	0.41

26. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Group enters into transactions with major shareholders, directors, senior management and their related concerns at commercial interest and commission rates.
The year end balances in respect of related parties included in the statement of financial position are as follows:

	31 December 2010 AED'000	31 December 2009 AED'000
Loans and advances to customers		
To associates	**48,768**	76,614
To key management staff	**391**	843
Customer's deposits		
From associates	**2,527**	2,744
From others	**163,903**	161,620

Commitments and contingent liabilities (note 20) include a letter of guarantee issued by the Company on behalf of an associate amounting to AED 9,500 thousand (31 December 2009: AED 8,500 thousand).
Significant transactions with related parties during the year were as follows:

Interest and commission income		
From associates	**6,802**	7,326
From key management	**21**	49
Interest expense		
To associates	**74**	133
To others	**4,554**	4,410
Key management remuneration		
Short term benefits (salaries, benefits and bonuses)	**15,530**	14,820

27. CONSTRUCTION CONTRACTS

	2010 AED'000	2009 AED'000
Construction costs incurred plus recognised profits less recognised losses to date	**421,800**	180,526
Less : Progress billings to date	**394,165**	178,888
	27,635	1,638
Recognised and included in the consolidated financial statements as amounts due from customers under construction contracts (Note 11)	**27,635**	1,638

At 31 December 2010, retentions held by customers for contract work amounted to AED 8,623 thousand (2009: AED 5,686 thousand). Advances received from customers for contract work amounted to AED 6,902 thousand (2009: AED 18,776 thousand).

28. SEGMENTAL INFORMATION

The Group has adopted IFRS 8 *Operating Segments* with effect from 1 January 2009. IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor standard (IAS 14: *Segment Reporting*) required an entity to identify two types of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. However, the business segments reported earlier as per the requirements of IAS 14 *Segment Reporting* are also used by the General Manager to allocate resources to the segments and to assess its performance.

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

(1) Commercial and retail financing, which principally provides loans and other credit facilities for institutional and individual customers.
(2) Investment, which involves the management of the Group's investment portfolio and its treasury activities.
(3) Construction, which involves the Group's subsidiaries performing real estate construction related activities.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds.

28. SEGMENTAL INFORMATION (continued)

28.1 Products and services from which reportable segments derive their revenues

Information regarding the Group's reportable segments is presented below:

	Commercial & retail financing AED'000	Year ended 31 December 2010 Investment AED'000	Construction AED'000	Others AED'000	Total AED'000
Interest income	**187,491**	**4,520**	**-**	**-**	**192,011**
Interest expense	**(32,462)**	**(42,028)**	**-**	**-**	**(74,490)**
Share of profit of associates	**-**	**2,697**	**-**	**-**	**2,697**
Other operating income	**25,943**	**52,950**	**8,981**	**-**	**87,874**
Total operating income	**180,972**	**18,139**	**8,981**	**-**	**208,092**
Depreciation and amortisation expense	**-**	**-**	**(3,443)**	**(3,120)**	**(6,563)**
Other expenses and charges	**(66,999)**	**(1,877)**	**(13,105)**	**-**	**(81,981)**
Net profit for the year before impairment	**113,973**	**16,262**	**(7,567)**	**(3,120)**	**119,548**
Allowance for impairment of loans and advances, net	**(4,460)**	**-**	**-**	**-**	**(4,460)**
Net profit for the year after impairment	**109,513**	**16,262**	**(7,567)**	**(3,120)**	**115,088**
Segmental assets	**2,174,767**	**773,267**	**65,426**	**110,697**	**3,124,157**
Segmental liabilities	**2,435,111**	**-**	**132,552**	**-**	**2,567,663**
Additions to non-current assets during the year	**-**	**10,663**	**1,714**	**18,577**	**30,954**

	Commercial & retail financing AED'000	Year ended 31 December 2010 Investment AED'000	Construction AED'000	Others AED'000	Total AED'000
Interest income	203,062	1,169	-	-	204,231
Interest expense	(47,720)	(31,381)	-	-	(79,101)
Share of profit of associates	-	11,128	-	-	11,128
Other operating income	27,338	29,427	12,326	-	69,091
Total operating income	182,680	10,343	12,326	-	205,349
Depreciation and amortisation expense	-	-	(901)	(4,047)	(4,948)
Other expenses and charges	(60,181)	(2,097)	(17,550)	-	(79,828)
Net profit for the year before impairment	122,499	8,246	(6,125)	(4,047)	120,573
Allowance for impairment of loans and advances, net	(8,164)	-	-	-	(8,164)
Net profit for the year after impairment	114,335	8,246	(6,125)	(4,047)	112,409
Segmental assets	1,852,210	815,480	52,275	-	2,719,965
Segmental liabilities	1,968,538	-	111,834	-	2,080,372
Additions to non-current assets during the year	-	-	1,302	22,416	23,718

28. SEGMENTAL INFORMATION (continued)

28.1 Products and services from which reportable segments derive their revenues (continued)

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year (2009: nil). The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and
- all liabilities are allocated to reportable segments. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

28.2 Geographical information

The Group primarily operates in the U.A.E. (country of domicile).

28.3 Information about major customers

There is no single customer accounting for more than 10% of the Group's revenues from external customers.

29. RISK MANAGEMENT

29.1 Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

Risk management structure

In line with the best practice followed in world class financial institutions the overall risk management responsibility lies with the Board of Directors of the Group, under which there is a Board Investment and Credit Committee (BICC) comprising of six board members and the Chief Risk Officer who take responsibility for identifying and controlling the risks.

29. RISK MANAGEMENT (continued)

29.1 Introduction (continued)

Board of Directors
The overall risk management responsibility lies with the Board of Directors of the Group. It provides the direction, strategy and oversight of all the activities through various committees.

Audit Committee
The Audit Committee comprises three independent members who represent the Board of Directors of the Group. The Audit Committee has the overall responsibility of assessing the internal audit findings, directing implementation of audit recommendations and overseeing the internal audit activities undertaken within the internal control environment and regulatory compliance framework of the Group. Duties and responsibilities of the Audit Committee are governed by a formally approved Audit Committee Charter which is in line with best practice and control governance.

Asset Liability Committee
The asset liability management process is an act of planning, acquiring, and directing the flow of funds through an organization. The ultimate objective of this process is to generate adequate and stable earnings and to steadily build an organization's equity over time, while taking measured business risks. The Group has a well defined asset liability management policy duly describing the objective, role and function of the Asset Liability Committee which is the body within the Group that holds the responsibility to make strategic decisions to manage balance sheet related risks. The Asset Liability Committee, consisting of the Group's senior management, including the Chairman, meets at least once a month.

Board Investment and Credit Committee
All major business proposals of clients are approved through the BICC. The BICC is a sub-committee of the Board of Directors. The approval process and the authorities vested with the BICC members are well defined in a credit policy manual. The policy manual enumerates various procedures to be followed by relationship managers in bringing relationships to the Group. Various aspects of the credit approval process have been defined in the policy which enables efficient approval of the proposals.

Risk Management Unit
The RMU is an independent unit reporting to the General Manager. The RMU is responsible for identifying, measuring, monitoring and controlling the risks arising out of various activities in the Group by the different business units. The process is through partnering with the units in identifying and addressing the risks by setting limits and reporting on the utilization thereof.

The RMU also monitors compliance with the regulatory procedures and anti-money laundering monitoring procedures of the Group.

Treasury
Group Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Group.

Internal Audit
Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee. The Head of Internal Audit has direct reporting lines to the Audit Committee in order to secure independence and objectivity in all audit engagements undertaken within the Group.

29. RISK MANAGEMENT (continued)

29.1 Introduction (continued)

Risk Measurement and Reporting Systems
Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the RMU, and the head of each business division. The report includes aggregate credit exposure, limit exceptions and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the provision for credit losses on a quarterly basis. RMU receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Risk mitigation
As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies.

The risk profile is assessed before entering into hedge transactions, which are authorized by the appropriate level of seniority within the Group. The effectiveness of hedges is assessed by the risk management unit. The effectiveness of all the hedge relationships is monitored by the risk management unit monthly. In situations of ineffectiveness, the Group will enter into a new hedge relationship to mitigate risk on a continuous basis.

The Group actively uses collateral to reduce its credit risks.

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

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

Details of the composition of the loans and advances portfolio are provided in Note 6. Information on credit risk relating to investments is provided in Note 29.3.

29.2 Market risk

Market risk is the risk that the fair value and future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices.

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Effective hedging strategies are in place to ensure that interest rate fluctuations do not cause significant changes in future cash flows or fair value of financial instruments.

29. RISK MANAGEMENT (continued)

29.2 Market risk (continued)

Interest rate risk (continued)

The Group is exposed to interest rate risk on its interest bearing assets and liabilities.

The following table demonstrates the sensitivity of the income statement to reasonably possible changes in interest rates, with all other variables held constant, of the Group's result for the year.

	Effects on profit AED'000
2010	
+100 increase in basis point	**(625)**
-100 decrease in basis point	**625**
2009	
+100 increase in basis point	1,044
-100 decrease in basis point	(1,044)

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board of Directors has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

Foreign currency risk is limited since a significant proportion of the Group's transactions, monetary assets and liabilities are denominated in U.A.E. Dirhams and U.S. Dollars. As the U.A.E. Dirham is pegged to the U.S. Dollar, balances in U.S. Dollars are not considered to represent significant currency risk.

Equity price risk
Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio.

The following table estimates the sensitivity to a possible change in equity markets on the Group's income statement. The sensitivity of the income statement is the effect of the assumed change in the reference equity benchmark on the fair value of investments carried at fair value through the income statement.

	Impact on assumed level of change %	***Impact on net income 2010 AED'000***	*Impact on net income 2009 AED'000*
Investments carried at fair value through the income statement			
Reference equity benchmarks:			
Abu Dhabi Securities Market Index	5%	**1,378**	-
Dubai Financial Market Index	5%	**630**	-
Net asset value of managed funds	5%	**-**	120
Other equity exchanges	5%	**-**	-
Unquoted	5%	**-**	-

29. RISK MANAGEMENT (continued)

29.2 Market risk (continued)

The effect on equity (as a result of a change in the fair value of equity instruments carried at fair value through other comprehensive income at 31 December 2010) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows.

	Impact on assumed level of change %	***Impact on net income 2010 AED'000***	*Impact on net income 2009 AED'000*
Available for sale investments / Investments carried at fair value through the other comprehensive income			
Reference equity benchmarks:			
Abu Dhabi Securities Market Index	5%	**4,641**	8,108
Dubai Financial Market Index	5%	**4,044**	5,972
Muscat Securities Market	5%	**-**	109
Amman Stock Exchange	5%	**210**	210
Other equity exchanges	5%	**14,990**	12,360
Net asset value of private funds	5%	**842**	847

29.3 Credit risk

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

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks
The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf. Such payments are collected from customers based on the terms of the letters of guarantee. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

29. RISK MANAGEMENT (continued)

29.3 Credit risk (continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements.

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2010 AED'000	*Gross maximum exposure 2009 AED'000*
Balances with U.A.E. Central Bank	**10,507**	5,188
Due from banks and financial institutions	**939,736**	691,739
Loans and advances	**1,117,540**	1,143,277
Other assets	**142,977**	90,735
Contingent liabilities	**774,451**	547,113
Commitments	**99,204**	138,125
Total	**3,084,415**	2,616,177

Credit risk concentration

Concentration of risk is managed by customer / counterparty, by geographical region and by industry sector. The funded and non funded credit exposure to the top 5 borrowers as of 31 December 2010 was AED 363,571 thousand (2009: AED 280,611 thousand) before taking account of collateral or other credit enhancements and AED 77,607 thousand (2009: AED 16,160 thousand) net of such protection.

The distribution of the Group's financial assets by geographic region and industry sector is as follows:

	2010 AED'000	*2009 AED'000*
Geographic region		
U.A.E.	**2,206,520**	1,821,725
Other Arab countries	**1,285**	104,927
Europe	**1,773**	1,977
U.S.A.	**1,182**	2,310
Financial assets subject to credit risk	**2,210,760**	1,930,939
Other assets	**913,397**	789,026
Total assets	**3,124,157**	2,719,965
Industry sector		
Commercial and business	**935,610**	899,609
Personal	**255,314**	290,140
Government	**-**	-
Banks and financial institutions	**950,243**	696,927
Others	**69,593**	44,263
Financial assets subject to credit risk	**2,210,760**	1,930,939
Other assets	**913,397**	789,026
Total assets	**3,124,157**	2,719,965

29. RISK MANAGEMENT (continued)

29.3 Credit risk (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For repurchase and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, inventory, trade receivables and securities
- For personal lending, against post dated cheques and security cheques

The Group also obtains guarantees from parent companies for loans to their subsidiaries, but the benefits are not included in the above table.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and assesses the market value of collateral obtained during its review of the adequacy of the provision for impairment losses.

It is the Group's policy to dispose of repossessed assets, other than investment properties, in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

The Group also makes use of master netting agreements with counterparties.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset, based on the Group's credit rating system. The amounts presented are net of impairment provisions.

	Neither past due nor impaired				
	Pass grade AED'000	*Watch grade AED'000*	*Sub-standard grade AED'000*	*Past due or individually impaired grade AED'000*	*Total AED'000*
2010					
Cash and balances with U.A.E. Central Bank	**11,799**	**-**	**-**	**-**	**11,799**
Due from banks and financial institutions	**939,736**	**-**	**-**	**-**	**939,736**
Loans and advances	**721,469**	**35,939**	**34,522**	**325,610**	**1,117,540**
Other assets	**492,274**	**-**	**-**	**-**	**492,274**
Total	**2,165,278**	**35,939**	**34,522**	**325,610**	**2,561,349**
2009					
Cash and balances with U.A.E. Central Bank	6,150	-	-	-	6,150
Due from banks and financial institutions	691,739	-	-	-	691,739
Loans and advances	847,037	42,194	40,530	213,516	1,143,277
Other assets	278,715	-	-	-	278,715
Total	1,823,641	42,194	40,530	213,516	2,119,881

Past due loans and advances include those that are only past due by a few days. An analysis of past due loans, by age, is provided below.

29. RISK MANAGEMENT (continued)

29.3 Credit risk (continued)

Aging analysis of past due or impaired loans

	Less than 30days AED'000	*31 to 60 days AED'000*	*61 to 90 days AED'000*	*more than 91 days AED'000*	*Total AED'000*
2010					
Past due but not impaired loans and advances	**9,553**	**26,751**	**1,057**	**225,527**	**262,888**
Impaired loans	-	-	-	**62,722**	**62,722**
Total past due and impaired loans	**9,553**	**26,751**	**1,057**	**288,249**	**325,610**
2009					
Past due but not impaired loans and advances	-	49,330	2,397	120,443	172,170
Impaired loans	-	-	-	41,346	41,346
Total past due and impaired loans	-	49,330	2,397	161,789	213,516

29.4 Liquidity risk and funding management

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.

Analysis of financial assets and financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial assets and liabilities at 31 December 2010 based on contractual maturities.

	Less than 3 months AED'000	*3 months to 1 year AED'000*	*1 year to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
ASSETS					
Cash and balances with U.A.E. Central Bank	11,799	-	-	-	11,799
Due from banks and financial institutions	452,075	432,731	54,930	-	939,736
Loans and advances, net	307,471	292,232	354,340	163,497	1,117,540
Non-trading investments	117,756	82,000	189,874	173,178	562,808
Other assets	246,007	45,335	5,175	-	296,517
Financial assets	1,135,108	852,298	604,319	336,675	2,928,400
Non-financial assets	4,973	-	13,307	177,477	195,757
Total assets	1,140,081	852,298	617,626	514,152	3,124,157
LIABILITIES					
Due to banks	-	207,428	-	-	207,428
Customers' deposits	968,926	600,577	-	-	1,569,503
Term loans	100,000	-	162,347	45,586	307,933
Other liabilities	453,584	23,597	-	5,618	482,799
Total liabilities	1,522,510	831,602	162,347	51,204	2,567,663

29. RISK MANAGEMENT (continued)

29.4 Liquidity risk and funding management (continued)

Analysis of financial assets and financial liabilities by remaining contractual maturities (continued)

The maturity profile of the financial assets and liabilities at 31 December 2009 was as follows:

	Less than 3 months AED'000	*3 months to 1 year AED'000*	*1 year to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
ASSETS					
Cash and balances with U.A.E. Central Bank	6,150	-	-	-	6,150
Due from banks and financial institutions	490,884	200,855	-	-	691,739
Loans and advances, net	228,053	391,180	446,292	77,752	1,143,277
Non-trading investments	222,971	-	260,591	116,522	600,084
Other assets	100,168	4,600	3,981	-	108,749
Financial assets	1,048,226	596,635	710,864	194,274	2,549,999
Non-financial assets	4,973	-	27,062	137,931	169,966
Total assets	1,053,199	596,635	737,926	332,205	2,719,965
LIABILITIES					
Due to banks	518	66,838	-	-	67,356
Customers' deposits	1,020,256	475,379	-	-	1,495,635
Term loans	49,833	91,829	5,177	-	146,839
Other liabilities	265,975	57,057	3,776	43,734	370,542
Total liabilities	1,336,582	691,103	8,953	43,734	2,080,372

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

	Less than 3 months AED'000	*3 months to 1 year AED'000*	*1 year to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
2010					
Contingent liabilities	**430,709**	**263,498**	**80,244**	**-**	**774,451**
Commitments	**99,204**	**-**	**-**	**-**	**99,204**
Total	**529,913**	**263,498**	**80,244**	**-**	**873,655**
2009					
Contingent liabilities	263,909	204,015	79,189	-	547,113
Commitments	138,125	-	-	-	138,125
Total	402,034	204,015	79,189	-	685,238

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

29. RISK MANAGEMENT (continued)

29.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, systems failure, human error, fraud or external events. When required controls fail, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. While the Group cannot expect to eliminate all operational risks, through a control framework and by continuous monitoring and responding to potential risks, the Group is able to manage these risks. Controls include effective segregation of duties, appropriate access, authorisation and reconciliation procedures, staff training and robust assessment processes. The processes are reviewed by risk management and internal audit on an ongoing basis.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

The following table shows the analysis of financial instruments recorded at fair value by level of the fair value hierarchy for the year ended 31 December 2010:

	Level 1 AED'000	*Level 2 AED'000*	*Level 3 AED'000*	*Total AED'000*
FINANCIAL ASSETS				
Carried at fair value through profit or loss				
Quoted equities	**40,175**	-	-	**40,175**
Carried at fair value through other comprehensive income				
Quoted equities	**255,475**	**67,790**	-	**323,265**
Unquoted equities	-	-	**171,266**	**171,266**
	255,475	**67,790**	**171,266**	**494,531**

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table shows the analysis of financial instruments recorded at fair value by level of the fair value hierarchy for the year ended 31 December 2009:

	Level 1 AED'000	*Level 2 AED'000*	*Level 3 AED'000*	*Total AED'000*
FINANCIAL ASSETS				
Carried at fair value through profit or loss				
Quoted equities	2,407	-	-	2,407
Available for sale investments				
Quoted equities	291,927	92,609	-	384,536
Unquoted equities	-	-	148,279	148,279
	291,927	92,609	148,279	532,815

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Investments carried at fair value through profit and loss
Investments carried at fair value through profit and loss are listed equities in local as well as international exchanges, and investment funds. Equity valuations are based on market prices as quoted in the exchange while funds are valued on the basis on net asset value statements received from fund managers.

Investments carried at fair value through other comprehensive income
Investments carried at fair value through other comprehensive income, the revaluation gains / losses of which are recognized through equity, comprise long term strategic investments in companies, private equity funds and eurodollar or AED denominated debt securities. For companies and funds, the financial statements provide the valuations of these investments which are arrived at primarily by discounted cash flow analysis. For debt securities, the applied valuation is quoted prices by key market players.

Transfers between categories
During the reporting period ending 31 December 2010, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

The following table shows a reconciliation of the opening and closing amount of Level 3 financial asset recorded at fair value.

	AED'000
At 1 January 2010	167,586
Purchased during the year	11,102
Sold during the year	(294)
Decrease in fair value during the year	(7,128)
At 31 December 2010	**171,266**

31. CAPITAL ADEQUACY

Capital management

The primary objective of the Group's capital management is to ensure that the Group maintains healthy capital ratios in order to support its business, to maximise shareholders' value and to ensure that the Group complies with externally imposed capital requirements.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The capital adequacy ratio calculated in accordance with the guidelines of the U.A.E. Central Bank is as follows:

	2010 AED'000	*2009 AED'000*
Total capital base	**483,244**	569,758
Risk weighted assets:		
Balance sheet items	**2,289,421**	2,091,626
Off-balance sheet exposures	**402,393**	342,619
Total risk weighted assets	**2,691,814**	2,434,245
Total assets ratio (%)	**18.0%**	23.4%

32. COMPARATIVE FIGURES

Certain comparative figures were reclassified to conform to the presentation adopted in these consolidated financial statements.