Finance House P.S.C.

CHAIRMAN'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2011

ERNST & YOUNG

P.O. Box 136
11th Floor - Al Ghaith Tower
Hamdan Street
Abu Dhabi, United Arab Emirates
Tel: +971 2 417 4400
+971 2 627 7522
Fax: +971 2 627 3383
www.ey.com/me

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

FINANCE HOUSE P.S.C.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Finance House P.S.C. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and 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 information.

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 about 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 consolidated 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 consolidated financial statements.

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

ERNST & YOUNG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, and its financial performance and 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.

Ernst & Young

Signed by
Richard Mitchell
Partner
Ernst & Young
Registration No. 446

29 January 2012
Abu Dhabi

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

Chairman's Report for the year ended 31 December 2011

On behalf of the Board of Directors, I am pleased to present the financial statements of Finance House P.S.C. and its subsidiaries (FH Group) as at 31 December 2011. For the year ended 31 December 2011, we achieved a net profit of AED 63.2 million. This translates to an earning of 21 fils per share. Total assets grew to AED 3.31 billion, representing an increase of nearly 6% over the figure of AED 3.12 billion as at 31 December 2010.

Net Interest Income from core business activities in 2011 has been relatively stable at AED 112 million compared to AED 117.5 million in 2010. The marginal decline in Net Interest Income was in part due to lower interest earned on inter-bank placements where interest rates remained subdued for the most part of 2011 in comparison to 2010. Net Fee and Commission income from core business activities registered a healthy growth of nearly 18%, increasing to AED 23.8 million in 2011 from AED 20.2 million in 2010.

Despite challenging market conditions and significantly tighter regulatory requirements, we are proud to maintain our profitable stance for the seventh successive year since inception. For a genuine private sector enterprise operating in the fiercely competitive UAE financial services sector, this is indeed a creditable achievement.

During the year, customer deposits continued to grow steadily to reach an all-time high of AED 1.62 billion as at 31 December 2011 compared to AED 1.57 billion as at 31 December 2010. This is a remarkable achievement, especially in the back-drop of tighter liquidity witnessed in the inter-bank market during the fourth quarter of 2011 and bears testimony to the continued confidence that the market places in Finance House.

Loans and Advances as at 31 December 2011 grew to AED 1.21 billion compared to AED 1.12 billion at the end of the previous year. Our Loans to Deposit Ratio as at 31 December 2011 stood at 75% compared to 71% in the previous year, reflecting both our cautious approach towards loan book growth during 2011 and the significant head room available for loan book growth in 2012 and beyond.

Our provisioning policy continues to be conservative and as of 31 December 2011, we maintain loan-loss coverage of 71% by way of specific provisions to cover net exposure against all past due and/or individually impaired loans. In addition to the above, we also maintain collective provision of circa 1.25% of the Performing Portfolio.

Finance House continues to manage its liquidity in a prudent manner. Since the onset of the financial crisis in October 2008 we have remained net lenders to the UAE inter-bank market and continue to maintain this position till date. Cash and Cash Equivalents as at 31 December 2011 stood at AED 496 million compared to AED 461 million in the previous year, representing a healthy 15% of Total Assets.

P.O. Box : 7878, Abu Dhabi, United Arab Emirates; Tel : +971 (0) 2 6219 999, Fax : +971 (0) 2 6194 099
(Finance House PJSC is a Public Joint Stock Company and the share capital is AED 302.5million)

دار التمويل
FINANCE HOUSE
PJSC - ش.م.ع

2011 was a milestone year in the evolution of the company in which we gave further shape to our long term strategy of transitioning from "Finance House" to "FH Group". Earlier in the year, we successfully launched (through an IPO) Insurance House P.S.C, a public joint stock company engaged in providing insurance services and in which we hold a significant stake. We are confident of the profitable future growth potential of this investment, which should contribute handsomely to the FH Group bottom-line on a sustained basis, going forward.

In terms of our proprietary investment book, we have made two strategic shifts during the course of the year- increased allocation to high grade fixed income securities issued by GCC government and quasi-government entities and significant fresh investments into our associate companies such as Insurance House, albeit with longer gestation periods in terms of investment returns.

We continue to maintain tight control over our operating costs which have been held relatively flat compared to the previous year.

The Board has recommended a cash dividend of 10% subject to regulatory approvals. The dividend recommendation will result in 52% of the net profit for the year being retained as part of Shareholders' equity to support future growth.

We look forward to 2012 with optimism and are clearly poised for profitable growth as economic activity gathers momentum. Our strategy is sound and we have the necessary mechanisms & structures in place to exploit profitable opportunities, to continue managing risks well, and to maximize returns for our shareholders.

On behalf of the Board of Directors,

Mohammed Alqubaisi
Chairman
Abu Dhabi

29 January 2012

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2011

	Notes	2011 AED'000	2010 AED'000
ASSETS			
Cash balances	4	**7,233**	1,292
Due from banks	4	**738,033**	950,243
Investments carried at fair value through other comprehensive income	5	**277,305**	494,531
Investments carried at fair value through profit and loss	5	**37,988**	40,175
Investments carried at amortised cost	5	**440,550**	-
Loans and advances, net	6	**1,208,857**	1,117,540
Investment in associates	7	**149,482**	68,277
Goodwill	8	**4,973**	4,973
Property, fixtures and equipment	9	**171,178**	119,419
Investment property	10	**87,599**	71,365
Interest receivable and other assets	11	**187,874**	256,342
TOTAL ASSETS		**3,311,072**	3,124,157
LIABILITIES			
Customers' deposits	12	**1,621,677**	1,569,503
Due to banks	4	**288,176**	207,428
Term loans	13	**408,200**	307,933
Interest payable and other liabilities	14	**464,758**	477,181
Provision for employees' end of service benefits		**6,324**	5,618
TOTAL LIABILITIES		**2,789,135**	2,567,663
EQUITY			
Share capital	15	**302,500**	275,000
Employees' share-based payment scheme	16	**(1,750)**	(1,750)
Statutory reserve	17	**109,345**	103,021
Revaluation reserve		**18,962**	18,962
Cumulative changes in fair value of investments carried at fair value through other comprehensive income		**(137,222)**	(114,444)
Retained earnings		**214,582**	266,722
Proposed directors' remuneration		**4,179**	8,983
Non-controlling interests		**11,341**	-
TOTAL EQUITY		**521,937**	556,494
TOTAL LIABILITIES AND EQUITY		**3,311,072**	3,124,157
Commitments and contingent liabilities	19	**1,025,948**	873,655

Mr. Mohammed Alqubaisi
CHAIRMAN

Mr. Hamad Taylor
GENERAL MANAGER

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	*2011* *AED'000*	*2010* *AED'000*
Interest income		**176,255**	192,011
Interest expense		**(64,214)**	(74,490)
Net interest income	20	**112,041**	117,521
Fee and commission income		**36,367**	30,454
Fee and commission expense		**(12,567)**	(10,205)
Net fee and commission income	21	**23,800**	20,249
Contract revenue		**141,406**	119,303
Contract costs		**(127,283)**	(111,891)
Net contract income		**14,123**	7,412
Dividend income from investments carried at fair value through other comprehensive income		**8,059**	9,116
Net (loss) income from investments carried at fair value through profit and loss	22	**(6,544)**	23,069
Net income from investment property		**6,967**	-
Gain on fair valuation of investment property	10	-	1,400
Share of (loss) profit of associates	7	**(2,307)**	2,697
Gain on acquisition of a subsidiary	3	**2,608**	-
Other operating income	23	**1,402**	26,628
Total operating income		**160,149**	208,092
Salaries and employees related expenses		**(56,331)**	(55,513)
Reversal of provision for contract losses		**3,225**	**-**
Depreciation of property, fixtures and equipment	9	**(6,472)**	(6,563)
Other general and administrative expenses		**(29,961)**	(26,468)
Allowance for impairment of loans and advances, net	6	**(7,369)**	(4,460)
Total operating expenses and allowances		**(96,908)**	(93,004)
Profit for the year		**63,241**	115,088
Attributable to:			
Equity holders of the parent		**63,869**	115,088
Non-controlling interests		**(628)**	-
		63,241	115,088
Basic and diluted earnings per share attributable to ordinary shares (AED)	24	**AED 0.21**	AED 0.38

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2011

	2011	*2010*
	AED'000	*AED'000*
Profit for the year	**63,241**	115,088
Other comprehensive income		
Net loss on financial assets measured at fair value through other comprehensive income	**(59,534)**	(79,170)
Directors' remuneration paid	**(8,983)**	(9,017)
Other comprehensive loss for the year	**(68,517)**	(88,187)
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR	**(5,276)**	26,901
Attributable to:		
Equity holders of the parent	**(4,648)**	26,901
Non-controlling interests	**(628)**	-
	(5,276)	26,901

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	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 interests AED'000*	*Total AED'000*
2010										
Balance at 1 January 2010	220,000	(1,750)	91,512	23,762	(35,274)	332,326	9,017	639,593	-	639,593
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 (note 18)	-	-	-	-	-	(110,000)	-	(110,000)	-	(110,000)
Transfer to statutory reserve	-	-	11,509	-	-	(11,509)	-	-	-	-
Stock dividend paid (note 15)	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
2011										
Balance at 1 January 2011	275,000	(1,750)	103,021	18,962	(114,444)	266,722	8,983	556,494	-	556,494
Profit for the year	-	-	-	-	-	63,869	-	63,869	(628)	63,241
Loss on disposal of investments carried at fair value through other comprehensive income	-	-	-	-	36,756	(36,756)	-	-	-	-
Decrease in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	(59,534)	-	-	(59,534)	-	(59,534)
Proposed directors' remuneration	-	-	-	-	-	(4,179)	4,179	-	-	-
Directors' remuneration paid	-	-	-	-	-	-	(8,983)	(8,983)	-	(8,983)
Total comprehensive loss for the year	-	-	-	-	(22,778)	22,934	(4,804)	(4,648)	(628)	(5,276)
Cash dividend paid (note 18)	-	-	-	-	-	(41,250)	-	(41,250)	-	(41,250)
Transfer to statutory reserve	-	-	6,324	-	-	(6,324)	-	-	-	-
Stock dividend paid (note 15)	27,500	-	-	-	-	(27,500)	-	-	-	-
Non controlling interest arising on acquisition of a subsidiary (note 3)	-	-	-	-	-	-	-	-	11,969	11,969
Balance at 31 December 2011	**302,500**	**(1,750)**	**109,345**	**18,962**	**(137,222)**	**214,582**	**4,179**	**510,596**	**11,341**	**521,937**

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2011

	Notes	*2011* *AED'000*	*2010* *AED'000*
OPERATING ACTIVITIES			
Profit for the year		**63,241**	115,088
Non cash adjustments for:			
Depreciation		**6,472**	6,563
Gain on fair valuation of investment property		**-**	(1,400)
Share of loss (profit) of associates		**2,307**	(2,697)
Reversal of provision for contract losses		**(3,225)**	(5,242)
Allowance for impairment of loans and advances		**7,369**	4,460
Gain on acquisition of a subsidiary		**(2,608)**	-
Net movement in provision for employees' end of service benefits		**226**	1,573
Working capital adjustments:			
Decrease (increase) in due from banks maturing after three months		**297,322**	(236,807)
(Increase) decrease in loans and advances		**(98,686)**	21,277
Decrease (increase) in interest receivable and other assets		**92,105**	(150,000)
Increase in due to banks maturing after three months		**31,936**	139,574
Increase in term loans		**100,267**	161,094
Increase in customers' deposits		**52,174**	73,868
(Decrease) increase in interest payable and other liabilities		**(22,248)**	115,926
Dividend income from investments carried at fair value through other comprehensive income		**(8,059)**	(9,116)
Dividend income from investments carried at fair value through profit and loss		**(602)**	(676)
Loss (gain) on disposal of investments carried at fair value through profit and loss		**3,913**	(20,643)
Unrealised loss (gain) on investments carried at fair value through profit and loss		**3,233**	(1,750)
Net cash from operating activities		**525,137**	211,092
INVESTING ACTIVITIES			
Purchase of investments carried at fair value through other comprehensive income		**(66,671)**	(38,479)
Proceeds from sale of investments carried at fair value through other comprehensive income		**96,433**	-
Purchase of investments carried at fair value through profit and loss		**(29,371)**	(258,239)
Proceeds from sale of investments carried at fair value through profit and loss		**24,412**	242,864
Purchase of investments carried at amortised cost		**(312,620)**	-
Addition to investment property		**(16,234)**	(10,663)
Purchase of property, fixtures and equipment		**(56,936)**	(20,291)
Acquisition of a subsidiary, net of cash acquired		**(1,052)**	-
Purchase of investment in associates		**(117,628)**	(10,643)
Disposal of investment in associates		**30,696**	9,225
Dividend income received		**8,661**	10,492
Net cash used in investing activities		**(440,310)**	(75,734)
FINANCING ACTIVITIES			
Directors remuneration paid		**(8,983)**	(9,017)
Dividend paid		**(41,250)**	(110,000)
Net cash used in financing activities		**(50,233)**	(119,017)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**34,594**	16,341
Cash and cash equivalents at the beginning of the year	4	**461,019**	444,678
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	**495,613**	461,019

The attached notes 1 to 30 form part of these consolidated financial statements.

1 ACTIVITES

Finance House P.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 Abu Dhabi, 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 29 January 2012.

2.1 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 value and revaluation of land.

The consolidated financial statements of the Group are prepared in U.A.E. Dirhams (AED) which is the functional currency of the Group. All values are rounded to the nearest thousand (AED '000), except otherwise indicated.

2.2 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
FH Services L.L.C	U.A.E.	100	Investment management
Finance House Securities Co L.L.C	U.A.E.	65	Brokerage

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.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

2.3 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 2011 which do not have any significant impact on the consolidated financial statements:

IAS 24 Related Party Disclosures (Amendment)
The amended standard is effective for annual periods beginning on or after 1 January 2011. The amendment clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Group has concluded that the Amendment will not have any significant impact on its financial position or performance.

IAS 32 Financial Instruments: Presentation- Classification of Rights Issues (Amendment)
The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

IFRIC 14 ***Prepayments of a minimum funding requirement (Amendment)***
The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group

Improvements to IFRSs (issued in May 2010)
The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments are effective for annual periods on or after either 1 July 2010 or 1 January 2011.

The adoption of the above standards and interpretations did not have any effect on the financial performance or position of the Group.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

- IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (Amendment)
- IAS 12 Income Taxes – Recovery of Underlying Assets (Amendment)
- IAS 19 Employee Benefits (Amendment)
- IAS 27 Separate Financial Statements (as revised in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
- IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements (Amendment)
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Involvement with Other Entities
- IFRS 13 Fair Value Measurement

The Group, however, expects no material impact from the adoption of the above new standards and amendments on its financial position or performance.

2.5 SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents
Cash and cash equivalents comprise 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.

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.

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 statement of financial position 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.

Financial assets
Financial assets – initial recognition and subsequent measurement
Date of recognition
All financial assets are initially recognised on the trade date, i.e. the date that the Group 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 assets are initially measured at their fair value plus transaction costs, except for those financial assets measured at fair value through profit or loss.

Subsequent measurement
The subsequent measurement of financial assets depends on the Group'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.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets continued
Financial assets measured at amortised cost continued
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.

Other financial assets measured at fair value through profit and 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 29.

Financial assets 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 designated at fair value through profit or loss
Financial assets 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. 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 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 designated at fair value through profit or loss. Interest earned is accrued in interest income, using the effective interest rate method, while dividend income is recorded in other operating income when the right to the payment has been established.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

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.

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.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of financial assets continued
Derecognition of financial assets continued
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.

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Property, fixtures and equipment
Property, fixtures and equipment are stated at cost less accumulated depreciation and any impairment in value. The carrying amounts are reviewed at each statement of financial position 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 properties
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 statement of financial position 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.

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

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

Financial liabilities, including customers’ deposits, due to banks and term loans, 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.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Financial liabilities and equity instruments continued
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.

Repurchase agreements
Assets sold with a simultaneous commitment to repurchase at a specified future date ("Repo") are not derecognised. The counterparty liability for amounts received under these agreements is included in due to banks or customers' deposits in the consolidated statement of financial position, as appropriate. The difference between the sale and repurchase price is treated as interest expense which is accrued over the life of the repo agreement using the effective interest rate.

Operating segment reporting
An operating segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) which is subject to risks and rewards that are different from those of other segments and whose operating results are regularly reviewed by the Group's Chief Operating decision maker to make decisions about allocation of resources and assess its performance.

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.

Accounts payable and accruals
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the party or not.

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.

Foreign currencies
Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the rates of exchange ruling at the consolidated statement of financial position date. Any resultant gains and losses are recognised in the consolidated statement of income.

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.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Fair values
For investments 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.

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

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 is suspended and not 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.

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.

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.

2.6 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
The Group classifies investments as fair value through profit and loss if they are acquired primarily for the purpose of making a short term profit by the dealers.

Classification of investments as fair value through profit and loss 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 and loss in the management accounts, they are classified as fair value through profit and loss.

Equity investments not held for trading can be designated as being measured at fair value thorough other comprehensive income at initial recognition.

Investments are classified 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.

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.

2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

Fair value of unquoted investments
As described in note 29, 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 includes some assumptions not supported by observable market prices or rates. Details of assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in note 29.

3 BUSINESS COMBINATIONS

Acquisition of Finance House Securities Company LLC
On 1 July 2011, the Company acquired an additional 55% of the voting shares of Finance House Securities Company LLC (formerly known as Gulf National Securities Center L.L.C.) increasing its total ownership to 65%. The principal activity of the subsidiary is to act as broker for buying and selling local stocks and bonds and has a branch in Abu Dhabi.

The fair value of the identifiable assets and liabilities of Finance House Securities Company LLC as at the date of acquisition were:

	Fair value amounts AED '000
Cash and cash equivalents	**15,147**
Fixed deposits with banks	**7,647**
Trade and other receivables	**23,152**
Other current assets	**485**
Property and equipment	**1,295**
Total assets	**47,726**
Trade and other payables	**(13,050)**
End of service benefits obligation	**(480)**
Total liabilities	**(13,530)**
Total identifiable net assets	**34,196**
Non-controlling interests	**(11,969)**
Total identifiable net assets acquired	**22,227**
Value of investment in Finance House Securities Company LLC directly before achieving control	**3,420**
Additional consideration paid	**16,199**
Gain on acquisition of a subsidiary	**2,608**
	22,227

Cash outflow on acquisition is as follows:

Consideration paid	**16,199**
Cash acquired with Finance House Securities Company LLC	**(15,147)**
Net cash outflow	**1,052**

4 CASH AND CASH EQUIVALENTS

	2011	*2010*
	AED'000	*AED'000*
Due from banks		
Current and demand accounts	**20,625**	45,453
Fixed placements	**706,062**	898,662
Call accounts	**11,346**	6,128
	738,033	950,243
Cash balances	**7,233**	1,292
Due to banks maturing within three months (deposits)	**(51,666)**	(2,854)
Due from banks maturing after three months	**(197,987)**	(487,662)
Net cash and cash equivalents	**495,613**	461,019

Fixed placements with banks of AED 197,987 thousand (2010: AED 487,662 thousand) and due to banks of AED 236,510 thousand (2010: AED 204,574 thousand) are due to mature after three months from the date of placement and are not included in cash and cash equivalents.

5 INVESTMENTS

	2011	*2010*
	AED'000	*AED'000*
Investments carried at fair value through other comprehensive income		
UAE	**262,702**	485,683
Outside UAE	**14,603**	8,848
	277,305	494,531
Investments carried at fair value through profit and loss	**37,988**	40,175
Investments carried at amortised cost		
UAE	**277,673**	-
Outside UAE	**162,877**	-
	440,550	-

6 LOANS AND ADVANCES, NET

	2011 *AED'000*	*2010* *AED'000*
Commercial loans	**1,062,792**	948,835
Retail finance	**308,249**	323,520
	1,371,041	1,272,355
Less: allowance for impairment		
Specific	**(149,242)**	(132,932)
Collective	**(12,942)**	(21,883)
	1,208,857	1,117,540

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

At 1 January	**154,815**	150,355
Charge for the year	**13,507**	7,066
Less: Reversals during the year	**(6,138)**	(2,606)
At 31 December	**162,184**	154,815

7 INVESTMENT IN ASSOCIATES

The Group has the following investments in associates

	Percentage of holding *2011*	*2010*
Islamic Finance House P.J.S.C.	**47.83%**	-
Insurance House P.S.C.	**36.04%**	-
Mainland Management L.L.C.	**33.33%**	33.33%
Universal Hospital L.L.C.	**30.00%**	-
The Financial Corporation S.A.O.G.	-	22.22%
Sawaeed Investment L.L.C.	-	25%
Gulf National Securities Center L.L.C.	-	10%

Islamic Finance House P.J.S.C. is incorporated in the U.A.E. and is engaged in Islamic financing.

Insurance House P.J.S.C. is incorporated in the U.A.E. and is engaged in non-life insurance services.

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

Universal Hospital L.L.C. is incorporated in the U.A.E. and owns and manages a hospital.

For the purpose of applying the equity method of accounting, the financial statements of the associates as at 30 September 2011 have been used. Adjustments for significant transactions and events, if any, between 1 October 2011 and 31 December 2011 have been made to reflect the financial position as of 31 December 2011.

During the year, the Group's stake in The Financial Corporation S.A.O.G. and Sawaeed Investment L.L.C. were disposed off in full for a gain of AED 388 thousand and AED 4,000 thousand, respectively.

During the year, the Group acquired an additional stake of 55% in Gulf National Securities Center L.L.C (note 3).

7 INVESTMENT IN ASSOCIATES continued

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

	2011 *AED 000*	*2010* *AED 000*
Associates' statement of financial position		
Assets	**634,764**	365,007
Liabilities	**(279,989)**	(147,677)
Net assets	**354,775**	217,330
Group's share of net assets	**135,533**	55,275
Goodwill arising on acquisition	**13,949**	13,002
Carrying amount of investment in associates	**149,482**	68,277
Associates' revenue and profit:		
Revenue	**22,023**	18,585
(Loss) profit for the year	**(18,024)**	15,801
Group's share of net (loss) profit for the year	**(2,307)**	2,697

As of 31 December 2011, the Group's share of the contingent liabilities of associates amounted to AED 26,162 thousand (2010: 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 AED'000	*Furniture fixtures and equipment AED'000*	*Motor vehicles AED'000*	*Computer hardware and software AED'000*	*Capital work in progress AED'000*	*Total AED'000*
2011						
Cost or valuation						
At 1 January 2011	85,667	28,695	5,324	15,817	18,874	154,377
Additions during the year	-	1,846	321	2,404	53,660	58,231
At 31 December 2011	**85,667**	**30,541**	**5,645**	**18,221**	**72,534**	**212,608**
Accumulated depreciation:						
At 1 January 2011	-	18,318	3,462	13,178	-	34,958
Charge for the year	-	3,862	928	1,682	-	6,472
At 31 December 2011	**-**	**22,180**	**4,390**	**14,860**	**-**	**41,430**
Net book value:						
At 31 December 2011	**85,667**	**8,361**	**1,255**	**3,361**	**72,534**	**171,178**
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

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.

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

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.

10 INVESTMENT PROPERTY

	2011 *AED'000*	*2010* *AED'000*
Opening balance	**71,365**	47,464
Addition during the year	**16,234**	10,663
Transfer from property, fixtures and equipment (note 9)	**-**	11,838
Gain on fair valuation of investment property	**-**	1,400
Closing balance (at fair value)	**87,599**	71,365

Investment properties were valued based on management's best estimates as of the statement of financial position date based on information and assumptions considered by management to be adequate and appropriate in the circumstances as of 31 December 2011.

11 INTEREST RECEIVABLE AND OTHER ASSETS

	2011 *AED'000*	*2010* *AED'000*
Interest receivable	**70,841**	72,874
Prepayments	**19,447**	19,206
Advance for investments	**-**	94,159
Accounts receivable, net of provision for impairment	**37,419**	34,779
Amounts due from customers under construction contracts (note 26)	**48,080**	27,635
Other assets	**12,087**	7,689
	187,874	256,342

As at 31 December 2011, accounts receivable at nominal value of AED 8,986 were impaired, and fully provided for.

As at 31 December 2011, the ageing analysis of accounts receivable is as follows:

			Past due but not impaired			
	Total *AED*	*Neither past due nor impaired* *AED*	*< 30 days* *AED*	*30 – 60 days* *AED*	*60 – 90 days* *AED*	*>120 days* *AED*
2011	**37,419**	**18,933**	**3,419**	**443**	**-**	**14,624**
2010	34,779	34,779	-	-	-	-

12 CUSTOMERS' DEPOSITS

	2011	*2010*
	AED'000	*AED'000*
Call and demand deposits	**69,023**	36,331
Time deposits	**1,552,654**	1,533,172
	1,621,677	1,569,503

Analysis of customers' deposits by sector is as follows:

Government	**437,582**	726,092
Corporate	**1,184,095**	843,411
	1,621,677	1,569,503

13 TERM LOANS

	2011	*2010*
	AED'000	*AED'000*
From local commercial banks (i)	**101,173**	152,157
From international commercial banks (ii)	**307,027**	155,776
	408,200	307,933

(i) Included in the term loans is an amount of AED 100,000 thousand which was obtained from a local commercial bank in 2010. This loan will be repaid by 2012.

(ii) Included in the term loans are an amount of AED 155,776 thousand and AED 150,000 thousand which were obtained from international commercial banks with UAE presence in 2010 and 2011 respectively. These loans will be repaid within 2 -3 years.

14 INTEREST PAYABLE AND OTHER LIABILITIES

	2011	*2010*
	AED'000	*AED'000*
Interest payable	**14,426**	22,976
Trade payables	**4,070**	-
Accrued expenses	**52,087**	53,563
Margin accounts	**292,480**	213,757
Provision for estimated contract losses	**-**	3,225
Other liabilities	**101,695**	183,660
	464,758	477,181

15 SHARE CAPITAL

	Issue and fully paid	
	2011	*2010*
	AED'000	*AED'000*
Authorised, issued and fully paid		
302.5 million shares (2010: 275 million shares) of AED 1 each (31 December 2010: AED 1 each)	**302,500**	275,000

In the annual general meeting held on 21 March 2011, the shareholders approved the distribution of bonus shares equal to 10% (2010: 25%) of the nominal value of the shares in a ratio of one bonus share against every ten shares (2010: one share for every four share) held amounting to AED 27,500 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 (2010: nil shares) were granted to employees and outstanding shares not yet granted to employees as of 31 December 2011 were 1,650 thousand (31 December 2010: 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 profit, until such reserve reaches 50% of the share capital of the Company. The statutory reserve is not available for distribution.

18 DIVIDEND

In 2011, a dividend of AED 15 fils per share (total dividend AED 41,250 thousand) was paid to holders of fully paid ordinary shares. In 2010, the dividend paid was 50 fils per share (total dividend AED 110,000 thousand).

19 COMMITMENTS AND CONTINGENT LIABILITIES

The Group provides letters of credit and financial guarantees on behalf of customers to third parties. These agreements have fixed limits and are generally for a certain period of time.

Capital commitments represent future capital expenditures that the Group has committed to spend on assets over a period of time.

Irrevocable commitments to extend credit represent contractual irrevocable commitments to make loans and revolving credits.

19 COMMITMENTS AND CONTINGENT LIABILITIES continued

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

	2011 *AED'000*	*2010* *AED'000*
Letters of credit	**55,103**	38,198
Letters of guarantee	**792,220**	736,253
Capital commitments	**102,705**	29,390
Irrevocable commitments to extend credit	**75,920**	69,814
	1,025,948	873,655

20 NET INTEREST INCOME

	2011 *AED'000*	*2010* *AED'000*
Interest income		
Due from banks	**23,815**	28,102
Loans and advances	**139,834**	159,581
Others	**12,606**	4,328
	176,255	192,011
Interest expense		
Customer deposits	**(48,516)**	(64,492)
Due to banks	**(15,698)**	(9,998)
	(64,214)	(74,490)
Net interest income	**112,041**	117,521

No interest income is recognised on impaired loans and advances.

21 NET FEE AND COMMISSION INCOME

	2011 *AED'000*	*2010* *AED'000*
Fee and commission income		
Corporate and commercial finance activities	**15,266**	12,843
Retail finance activities	**21,101**	17,611
	36,367	30,454
Fee and commission expense	**(12,567)**	(10,205)
Net fee and commission income	**23,800**	20,249

22 NET (LOSS) INCOME FROM INVESTMENTS CARRIED AT FAIR VALUE THROUGH PROFIT AND LOSS

	2011	*2010*
	AED'000	*AED'000*
(Loss) gain on disposal of investments carried at fair value through profit and loss	**(3,913)**	20,643
Unrealised (loss) gain on investments carried at fair value through profit and loss	**(3,233)**	1,750
Dividends on investments carried at fair value through profit and loss	**602**	676
Net (loss) income from investments carried at fair value through profit and loss	**(6,544)**	23,069

23 OTHER OPERATING INCOME

Included in other operating income is an amount of AED nil (2010: AED 16.9 million) which represents the reversal of certain investment related provisions.

24 BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year. Diluted earnings per share is determined by adjusting the profit and the weighted average number of shares outstanding, adjusted for the effects of all dilutive potential ordinary shares. As of 31 December 2011, 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:

	2011	*2010*
Profit for the year attributable to equity holders of the parent (AED '000)	**63,869**	115,088
Number of ordinary shares in issue ('000)	**300,750**	300,750
Earnings per share (AED)	**0.21**	0.38

25 RELATED PARTY TRANSACTIONS

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

The year end balances in respect of related parties included in the statement of financial position are as follows:

	31 December 2011 AED'000	*31 December 2010 AED'000*
Loans and advances to customers		
To associates	**-**	48,768
To key management staff	**197**	391
Customers' deposits		
From associates	**131,670**	2,527
From others	**768**	163,903

Commitments and contingent liabilities (note 19) include a letter of guarantee issued by the Company on behalf of an associate amounting to AED 35,477 thousand (2010: AED 9,500 thousand).

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

	31 December 2011 AED'000	*31 December 2010 AED'000*
Contract revenue		
From others	**65,817**	89,658
Interest and commission income		
From associates	**25**	6,802
From key management	**12**	21
Interest expense		
To associates	**4,033**	74
To others	**6**	4,554
Key management remuneration		
Short term benefits (salaries, benefits and bonuses)	**14,989**	15,530

26 CONSTRUCTION CONTRACTS

	2011 ***AED'000***	*2010* *AED'000*
Construction costs incurred plus recognised profits less recognised losses to date	**519,204**	421,800
Less : Progress billings to date	**471,124**	394,165
	48,080	27,635
Recognised and included in the consolidated financial statements as amounts due from customers under construction contracts (Note 11)	**48,080**	27,635

At 31 December 2011, retentions held by customers for contract work amounted to AED 18,285 thousand (2010: AED 8,623 thousand). Advances received from customers for contract work amounted to AED 23,869 thousand (2010: AED 6,902 thousand).

27 SEGMENTAL INFORMATION

For the management purposes, the Group is organised into four major business segments:

(i) Commercial and retail financing, which principally provides loans and other credit facilities for institutional and individual customers.

(ii) Investment, which involves the management of the Group's investment portfolio and its treasury activities.

(iii) Construction, which involves the Group's subsidiaries performing real estate construction related activities.

(iv) Brokerage, which involves the Group's subsidiary providing brokerage services.

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.

27 SEGMENTAL INFORMATION continued

27.1 Products and services from which reportable segments derive their revenues

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

	Year ended 31 December 2011					
	Commercial and retail financing AED'000	*Investment AED'000*	*Construction AED'000*	*Brokerage AED'000*	*Unallocated AED'000*	*Total AED'000*
Interest income	**161,750**	**14,505**	**-**	**-**	**-**	**176,255**
Interest expense	**(57,100)**	**(7,114)**	**-**	**-**	**-**	**(64,214)**
Share of loss of associates	**-**	**(2,307)**	**-**	**-**	**-**	**(2,307)**
Other operating income	**1,255**	**33,726**	**14,512**	**922**	**-**	**50,415**
Total operating income	**105,905**	**38,810**	**14,512**	**922**	**-**	**160,149**
Depreciation and amortisation expense	**-**	**-**	**(3,320)**	**(146)**	**(3,006)**	**(6,472)**
Other expenses and charges	**(21,281)**	**(4,162)**	**(8,231)**	**(2,571)**	**(46,822)**	**(83,067)**
Profit for the year before impairment	**84,624**	**34,648**	**2,961**	**(1,795)**	**(49,828)**	**70,610**
Allowance for impairment of loans and advances, net	**(7,369)**	**-**	**-**	**-**	**-**	**(7,369)**
Profit for the year after impairment	**77,255**	**34,648**	**2,961**	**(1,795)**	**(49,828)**	**63,241**
Segmental assets	**1,304,737**	**1,854,214**	**105,644**	**46,477**	**-**	**3,311,072**
Segmental liabilities	**1,227,482**	**1,377,768**	**169,810**	**14,075**	**-**	**2,789,135**
Additions to non-current assets during the year	**-**	**16,234**	**1,327**	**1,428**	**55,476**	**74,465**

27 SEGMENTAL INFORMATION continued

27.1 Products and services from which reportable segments derive their revenues continued

	Year ended 31 December 2010					
	Commercial and retail financing AED'000	*Investment AED'000*	*Construction AED'000*	*Brokerage AED'000*	*Unallocated AED'000*	*Total AED'000*
Interest income	187,491	4,520	-	-	-	192,011
Interest expense	(51,432)	(23,058)	-	-	-	(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	162,002	37,109	8,981	-	-	208,092
Depreciation and amortisation expense	-	-	(3,443)	-	(3,120)	(6,563)
Other expenses and charges	(15,004)	(1,877)	(13,105)	-	(51,995)	(81,981)
Profit for the year before impairment	146,998	35,232	(7,567)	-	(55,115)	119,548
Allowance for impairment of loans and advances, net	(4,460)	-	-	-	-	(4,460)
Profit for the year after impairment	142,538	35,232	(7,567)	-	(55,115)	115,088
Segmental assets	1,200,273	1,747,761	65,426	-	110,697	3,124,157
Segmental liabilities	1,057,735	1,377,376	132,552	-	-	2,567,663
Additions to non-current assets during the year	-	10,663	1,714	-	18,577	30,954

27 SEGMENTAL INFORMATION continued

27.1 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 (2010: 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.

27.2 Geographical information

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

27.3 Information about major customers

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

28 RISK MANAGEMENT

28.1 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.

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.

28 RISK MANAGEMENT continued

28.1 Introduction continued

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 (RMU)
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.

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.

28 RISK MANAGEMENT continued

28.1 Introduction continued

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

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 28.3.

28.2 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.

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.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the Group's profit for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2011.

	Effect on profit AED 000
2011	
+100 increase in basis point	**(6,636)**
-100 decrease in basis point	**6,636**
2010	
+100 increase in basis point	(2,308)
-100 decrease in basis point	2,308

28 RISK MANAGEMENT continued

28.2 Market risk continued

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 it is ensured these 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 profit or loss.

	Assumed level of change %	***Impact on net income 2011 AED 000***	*Impact on net income 2010 AED 000*
Investments carried at fair value through profit or loss			
Abu Dhabi Securities Market Index	5%	**1,311**	1,378
Dubai Financial Market Index	5%	**588**	630

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 2011) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows.

	Assumed level of change %	***Impact on equity 2011 AED 000***	*Impact on equity 2010 AED 000*
Investments carried at fair value through other comprehensive income			
Abu Dhabi Securities Market Index	5%	**3,278**	4,641
Dubai Financial Market Index	5%	**2,363**	4,044
Amman Stock Exchange	5%	**135**	210

28 RISK MANAGEMENT continued

28.3 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 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.

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 statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

	Gross maximum exposure 2011 AED 000	*Gross maximum exposure 2010 AED 000*
Balances with U.A.E. Central Bank	**3,317**	10,507
Due from banks and financial institutions	**734,716**	939,736
Loans and advances	**1,208,857**	1,117,540
Investments carried at amortised cost	**440,550**	-
Other assets	**168,427**	142,977
Contingent liabilities	**847,323**	774,451
Commitments	**75,920**	69,814
Total	**3,479,110**	3,055,025

28 RISK MANAGEMENT continued

28.3 Credit risk continued

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 2011 was AED 389,663 thousand (2010: AED 363,571 thousand) before taking account of collateral or other credit enhancements and AED 26,757 thousand (2010: AED 77,607 thousand) net of such protection, respectively.

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

	2011	*2010*
	AED 000	*AED 000*
Geographic region		
U.A.E.	**2,338,856**	2,206,520
Other Arab countries	**519**	1,285
Europe	**3,269**	1,773
U.S.A.	**346**	1,182
Rest of the world	**212,877**	-
Financial assets subject to credit risk	**2,555,867**	2,210,760
Other assets	**755,205**	913,397
Total assets	**3,311,072**	3,124,157
Industry sector		
Commercial and business	**1,061,706**	935,610
Personal	**217,509**	255,314
Banks and financial institutions	**1,178,583**	950,243
Others	**98,069**	69,593
Financial assets subject to credit risk	**2,555,867**	2,210,760
Other assets	**755,205**	913,397
Total assets	**3,311,072**	3,124,157

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.

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. Management estimates the fair value of collaterals and other credit enhancements held against individually impaired financing assets approximating to be AED 66,310 thousand as at 31 December 2011 (2010: AED 69,084 thousand).

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.

28 RISK MANAGEMENT continued

28.3 Credit risk continued

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 AED 000*	*Total AED 000*
2011					
Cash and balances with U.A.E. Central Bank	**10,550**	**-**	**-**	**-**	**10,550**
Due from banks and financial institutions	**734,716**	**-**	**-**	**-**	**734,716**
Loans and advances	**924,127**	**26,214**	**101,016**	**157,500**	**1,208,857**
Investments carried at amortised cost	**440,550**	-	-	-	**440,550**
Other assets	**168,427**	**-**	**-**	**-**	**168,427**
Total	**2,278,370**	**26,214**	**101,016**	**157,500**	**2,563,100**
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	791,930	35,939	34,522	255,149	1,117,540
Other assets	142,977	-	-	-	142,977
Total	1,886,442	35,939	34,522	255,149	2,212,052

An analysis of past due loans, by age, is provided below.

Aging analysis of past due or impaired loans

	Less than 30 days AED 000	*31 to 60 days AED 000*	*61 to 90 days AED 000*	*More than 91 days AED 000*	*Total AED 000*
2011					
Past due but not impaired loans and advances	**23,319**	**7,979**	**6,439**	**36,733**	**74,470**
Impaired loans	**-**	**-**	**-**	**83,030**	**83,030**
Total past due and impaired loans	**23,319**	**7,979**	**6,439**	**119,763**	**157,500**
2010					
Past due but not impaired loans and advances	9,553	26,751	1,057	155,066	192,427
Impaired loans	-	-	-	62,722	62,722
Total past due and impaired loans	9,553	26,751	1,057	217,788	255,149

28 RISK MANAGEMENT continued

28.4 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 2011 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	**10,550**	**-**	**-**	**-**	**10,550**
Due from banks and financial institutions	**536,729**	**125,000**	**72,987**	**-**	**734,716**
Loans and advances, net	**321,148**	**315,393**	**490,034**	**82,282**	**1,208,857**
Investments, including associates	**601,370**	**27,000**	**223,895**	**53,060**	**905,325**
Other assets	**71,519**	**76,553**	**20,355**	**-**	**168,427**
Financial assets	**1,541,316**	**543,946**	**807,271**	**135,342**	**3,027,875**
Non-financial assets	**24,420**	**-**	**10,155**	**248,622**	**283,197**
Total assets	**1,565,736**	**543,946**	**817,426**	**383,964**	**3,311,072**
LIABILITIES					
Due to banks	**51,666**	**208,384**	**28,126**	**-**	**288,176**
Customers' deposits	**1,107,912**	**491,765**	**22,000**	**-**	**1,621,677**
Term loans	**17,993**	**99,093**	**299,278**	**-**	**416,364**
Other liabilities	**439,791**	**11,295**	**13,672**	**6,324**	**471,082**
Total liabilities	**1,617,362**	**810,537**	**363,076**	**6,324**	**2,797,299**

The maturity profile of the financial assets and liabilities at 31 December 2010 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	11,799	-	-	-	11,799
Due from banks and financial institutions	452,074	432,732	54,930	-	939,736
Loans and advances, net	307,471	292,232	354,340	163,497	1,117,540
Investments, including associates	157,931	82,000	189,874	173,178	602,983
Other assets	186,626	45,335	5,175	-	237,136
Financial assets	1,115,901	852,299	604,319	336,675	2,909,194
Non-financial assets	24,179	-	13,307	177,477	214,963
Total assets	1,140,080	852,299	617,626	514,152	3,124,157
LIABILITIES					
Due to banks	2,854	204,574	-	-	207,428
Customers' deposits	968,926	600,577	-	-	1,569,503
Term loans	102,000	-	165,594	46,498	314,092
Other liabilities	453,584	23,597	-	5,618	482,799
Total liabilities	1,527,364	828,748	165,594	52,116	2,573,822

28 RISK MANAGEMENT continued

28.4 Liquidity risk and funding management continued

Analysis of financial assets and financial liabilities by remaining contractual maturities continued
The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

	Less than 3 months AED 000	*3 to 12 months AED 000*	*1 to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
2011					
Contingent liabilities	**485,216**	**282,921**	**79,186**	**-**	**847,323**
Commitments	**178,625**	**-**	**-**	**-**	**178,625**
Total	**663,841**	**282,921**	**79,186**	**-**	**1,025,948**
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

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

28.5 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.

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

While the Group prepares its financial statements under the historical cost convention modified for measurement to fair value of investments at fair value through other comprehensive income and profit and loss and investment properties, in the opinion of management, the estimated carrying values and fair values of 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

29 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 2011:

	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	**37,988**	**-**	**-**	**37,988**
Carried at fair value through other comprehensive income				
Quoted equities	**115,528**	**-**	**-**	**115,528**
Unquoted equities	**-**	**46,946**	**114,831**	**161,777**
	115,528	**46,946**	**114,831**	**277,305**

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	323,265	-	-	323,265
Unquoted equities	-	-	171,266	171,266
	323,265	-	171,266	494,531

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. Equity valuations are based on market prices as quoted in the exchange.

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 listed equities, companies and private equity funds. Listed 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. For companies, the financial statements provide the valuations of these investments which are arrived at primarily by discounted cash flow analysis.

Transfers between categories
During the reporting period ending 31 December 2011, 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.

30 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:

	2011	*2010*
	AED 000	*AED 000*
Total capital base	**423,043**	483,244
Risk weighted assets:		
Statement of financial position items	**2,201,610**	2,289,421
Off- statement of financial position exposures	**404,352**	402,393
Total risk weighted assets	**2,605,962**	2,691,814
Total assets ratio (%)	**16.2%**	18.0%