MAWARID FINANCE PJSC

Report and consolidated financial statements for the year ended 31 December 2010

MAWARID FINANCE PJSC

Contents

Deloitte.

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INDEPENDENT AUDITORS' REPORT

The Shareholders
Mawarid Finance P.J.S.C.
Dubai
United Arab Emirates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Mawarid Finance P.J.S.C. (the "Company") and its Subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, 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 for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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INDEPENDENT AUDITORS' REPORT (continued)

Basis of Qualification

The auditor of the subsidiary qualified their opinion on available for sale investments of AED 10 million (2009: AED 12 million). These securities are maintained by the subsidiary in contravention with the provisions of the subsidiary's Memorandum of Association.

Qualified Opinion

In our opinion, except for the fact mentioned above, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mawarid Finance P.J.S.C. and its Subsidiaries, as at 31 December 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following matter of Takaful House P.J.S.C., an associate company of the Group:

The shareholders of the associate company have funded the comprehensive loss in the participants' fund through a Qard Hasan (profit-free loan) of AED 41 million (2009: AED 37 million) with no repayment terms. As at 31 December 2010, the Qard Hassan at nominal value of AED 23 million (2009: AED 19 million) was impaired. The management of the associate company expects to recover the remaining balance of AED 18 million (2009: AED 18 million) from the future profits attributable to participants.

Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Company has maintained proper books of account. We obtained all the information and explanations which we considered necessary for our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984, as amended, or the Company's Articles of Association which might have materially affected the financial position of the Company or the results of its operations.

Deloitte & Touche

Dubai
15 March 2011

Consolidated statement of financial position
As of 31 December 2010

	Notes	2010 AED'000	2009 AED'000
ASSETS			
Cash and bank balances with Central Bank		617	3,063
Balances and deposits with banks and other financial institutions	5	243,683	212,127
Islamic financing and investing assets	6	492,207	532,935
Investment properties	7	85,326	75,975
Investment in securities	8	196,049	218,119
Investment in associate	9	22,210	24,523
Goodwill		-	6,437
Property and equipment	10	88,224	92,406
Other assets	11	48,645	63,774
Total assets		1,176,961	1,229,359
EQUITY AND LIABILITIES			
Equity			
Share capital	14	1,000,000	1,000,000
Statutory reserve	15	13,319	13,319
General reserve	16	12,822	12,822
Investment revaluation reserve		(16,661)	(10,997)
(Accumulated losses)/retained earnings		(31,206)	4,622
Attributable to equity holders of the parent		978,274	1,019,766
Non-controlling interests		9,733	12,648
Total equity		988,007	1,032,414
Liabilities			
Wakala deposits	12	152,408	151,835
Other liabilities	13	36,546	45,110
Total liabilities		188,954	196,945
Total equity and liabilities		1,176,961	1,229,359

Omran Al-Owais
Chairman

Mohamed Al Neaimi
Director & Chief Executive Officer

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

Consolidated income statement
for the year ended 31 December 2010

	Notes	2010 AED'000	2009 AED'000
Income from financing and investing assets	17	40,996	40,445
Income on Islamic deposits and Wakala placements	18	7,448	9,477
Changes in fair value of investment properties	7	(5,234)	(46,255)
Unrealized loss on investments carried at fair value through income statement		(546)	(4,650)
(Loss)/gain on sales of investment carried at fair value to income statement		(3,220)	6,630
Commission income		1,116	4,467
Share of loss from associate	9	(2,314)	(3,903)
Other income	19	2,575	7,068
Operating income		40,821	13,279
General and administrative expenses	20	(36,543)	(41,377)
Finance costs		(1,784)	(1,522)
Provision for impairment	21	(36,623)	(14,269)
Loss before depositors' share of profit		(34,129)	(43,889)
Depositors' share of profit		(4,072)	(7,801)
Net loss for the year		(38,201)	(51,690)
Attributable to:			
Equity holders of the parent		(35,828)	(47,453)
Non-controlling interests		(2,373)	(4,237)
		(38,201)	(51,690)

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

Consolidated statement of comprehensive income
for the year ended 31 December 2010

	2010 AED'000	2009 AED'000
Net loss for the year	**(38,201)**	(51,690)
Other comprehensive loss		
Change in the fair value of available for sale investments	**(6,206)**	(104)
Total comprehensive loss for the year	**(44,407)**	(51,794)
Total comprehensive loss attributable to:		
Equity holders of the parent	**(41,492)**	(48,391)
Non-controlling interests	**(2,915)**	(3,403)
Total comprehensive loss for the year	**(44,407)**	(51,794)

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

Consolidated statement of changes in equity for the year ended 31 December 2010

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Investment revaluation reserve AED'000	Retained earnings/ (accumulated losses) AED'000	Attributable to equity holders of the parent AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2009	1,000,000	13,319	12,822	(10,059)	52,075	1,068,157	16,659	1,084,816
Net loss for the year	-	-	-	-	(47,453)	(47,453)	(4,237)	(51,690)
Other comprehensive loss	-	-	-	(938)	-	(938)	834	(104)
Total comprehensive loss for the year	-	-	-	(938)	(47,453)	(48,391)	(3,403)	(51,794)
Dividend paid	-	-	-	-	-	-	(608)	(608)
Balance at 31 December 2009	1,000,000	13,319	12,822	(10,997)	4,622	1,019,766	12,648	1,032,414
Net loss for the year	-	-	-	-	(35,828)	(35,828)	(2,373)	(38,201)
Other comprehensive loss	-	-	-	(5,664)	-	(5,664)	(542)	(6,206)
Total comprehensive loss for the year	-	-	-	(5,664)	(35,828)	(41,492)	(2,915)	(44,407)
Balance at 31 December 2010	**1,000,000**	**13,319**	**12,822**	**(16,661)**	**(31,206)**	**978,274**	**9,733**	**988,007**

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

Consolidated statement of cash flows
for the year ended 31 December 2010

	2010 AED'000	2009 AED'000
Cash flows from operating activities		
Net loss for the year	(38,201)	(51,690)
Adjustment for:		
Depreciation	5,213	4,439
Income on Islamic deposits and Wakala placements	(7,448)	(9,477)
Change in fair value of investment properties	5,234	46,255
Loss / (gain) on disposal of investment in securities	3,220	(6,639)
Depositors' share of profit	4,072	7,801
Unrealised loss on investments carried at FVTIS	546	4,650
Share of loss in an associate	2,314	3,903
Provision for impairment on financing and investing assets	2,448	5,178
Provision for impairment on brokerage operation receivables	7,957	9,091
Provision for impairment on advance against property	7,465	-
Impairment of available for sale investments	12,316	-
Impairment of goodwill	6,437	-
Finance costs	1,784	1,522
	13,357	15,033
Changes in operating assets and liabilities		
Decrease / (increase) in financing and investing assets	38,280	(71,852)
(Increase) /decrease in other assets	(293)	6,616
Increase / (decrease) in Wakala deposits	573	(520)
(Decrease) / increase in other liabilities	(11,780)	15,870
Cash generated from / (used in) operations	40,137	(34,853)
Depositors' share of profit paid	(4,072)	(7,801)
Finance cost paid	(1,784)	(1,522)
Net cash from/(used in) operating activities	34,281	(44,176)
Cash flow from investing activities		
Purchase of property and equipment	(1,031)	(18,166)
Net movement in investment in securities	(219)	(7,831)
Purchase of investment properties	(14,585)	-
Islamic deposits and Wakala placements	(12,000)	(48,000)
Income received on deposits and Wakala placements	7,448	9,477
Net cash used in investing activities	(20,387)	(64,520)
Cash flows from financing activities		
Dividends paid	-	(608)
Net cash used in financing activities	-	(608)
Net increase/(decrease) in cash and cash equivalents	13,894	(109,304)
Cash and cash equivalents at the beginning of the year	144,256	253,560
Cash and cash equivalents at the end of the year (Note 22)	158,150	144,256

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

Notes to the consolidated financial statements for the year ended 31 December 2010

1 Establishment and operations

Mawarid Finance PJSC (the "Company") was registered on 4 December 2006 as a Private Joint Stock Company in accordance with the U.A.E. Federal Law No 8 of 1984, as amended. The address of the Company's registered office is P.O. Box 212121, Dubai, United Arab Emirates.

The Company is licensed by the United Arab Emirates Central Bank as a finance company and is primarily engaged in Islamic Sharia'a compliant financing and investment activities such as Ijara, Forward Ijara, Murabaha, Musharaka and Wakala. The activities of the Company are conducted in accordance with Islamic Sharia'a, which prohibits usury, and within the provisions of its Memorandum and Articles of Association.

The consolidated financial information includes the results of the operations of the Company and its subsidiaries (collectively referred to as "the Group"). Details of the Company's subsidiaries are as follows:

Name	Holding	Country of incorporation	Principal activities
Al Jazeera Financial Services LLC	55%	U.A.E.	Brokerage business.
MFI Investments LLC	100%	U.A.E.	Holding company.
IFS (FZE)	100%	U.A.E.	Operational services.

On 3 January 2008, the Group acquired 55% of the issued share capital of Al Jazeera Financial Services L.L.C., a securities brokerage firm incorporated and registered in Dubai, United Arab Emirates.

Goodwill of AED 6.4 million represented the excess of the cost of acquisition over the Group's interest in net fair value of the identifiable assets and liabilities of the business acquired. In the current financial year, the management reviewed the goodwill for impairment and upon the completion of their review impaired the goodwill in full.

2 Application of new and revised International Financial Reporting Standards (IFRSs)

2.1 *New and revised IFRSs affecting amounts and disclosures reported in the current year (and/or prior years)*

The following new and revised IFRSs have been applied in the current year and have affected the presentation and disclosure reported in these consolidated financial statements. Details of other new and revised IFRSs applied in these consolidated financial statements that have had no material effect on the consolidated financial statements are set out in Section 2.2.

New and revised IFRSs affecting presentation and disclosure only

Amendments to IFRS 7 *Financial Instruments: Disclosures* (as part of *Improvements to IFRSs* issued in May 2010)	The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. The Group has applied the amendments in advance of their effective date (annual periods beginning on or after 1 January 2011). The amendments have been applied retrospectively.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs have also been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

New and revised IFRSs	Summary of requirement
Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters	The amendments provide two exemptions when adopting IFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease.
Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*	The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.
Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (as part of *Improvements to IFRSs* issued in 2008)	The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.
Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2009)	The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the financial statements.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and revised IFRSs applied with no material effect on the consolidated financial statements (continued)

New and revised IFRSs	Summary of requirement
IFRS 9 Financial Instruments (IASB project to replace IAS 39 completely)	New requirements on accounting for financial liabilities measured a fair value through profit and loss (FVTPL) and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities. The new requirements address the problem of volatility in profit and loss (P&L) arising from an issuer choosing to measure its own debt at fair value. This is often referred to as the 'own credit' problem. The application of these new requirements has no effect on the consolidated financial statements of the Group for the year ended 31 December 2010 as all financial liabilities are measured at amortised cost by using the effective interest rate method.
Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. This amendment had no effect on the amounts reported in prior years because the Bank has not previously issued instruments of this nature.
Amendments to IAS 7 Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.
Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items	The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
Improvements to IFRSs issued in 2009	Except for the amendments to IFRS 5, IAS 1 and IAS 7 described earlier in section 2.2, the application of Improvements to IFRSs issued in 2009 has not had any material effect on amounts reported in the consolidated financial statements.
IFRIC 17 Distributions of Non-cash Assets to Owners	The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.3 New and revised IFRSs in issue but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	Summary of requirement
Amendments to IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[1]
Amendments to IFRS 3	Business Combinations on new requirements for contingent consideration [2]
Amendments to IFRS 7	Disclosures – Transfers of Financial Assets[2]
Amendments to IAS 1	Analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements [3]
IAS 24 (as revised in 2009)	Related Party Disclosures[4]
Amendments to IAS 27	Transition requirements for amendments[1]
Amendments to IAS 32	Classification of Rights Issues[4]
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement[4]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[1]

Improvements to IFRSs issued in 2010 (except for the amendments to IFRS 3(2008), IFRS 7, IAS 1 and IAS 28 described earlier in section 2.1) [5]

[1] Effective for annual periods beginning on or after 1 July 2010.
[2] Effective for annual periods beginning on or after 1 July 2011.
[3] Effective for annual periods beginning on or after 1 January 2011.
[4] Effective for annual periods beginning on or after 1 February 2010.
[5] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

3.1 Definitions

The following terms are used in the consolidated financial statements with the meaning specified:

Sharia'a

Sharia'a is the Islamic law which is essentially derived from the Quran and the Sunnah that governs beliefs and conducts of human being. The Group, being an Islamic Financial Institution, incorporates the Sharia'a rules and principles in its activities.

Ijarah

An agreement whereby the Company (lessor) purchases or leases an asset according to the customer's request (lessee), based on his promise to lease the asset for a specific period and against certain rental instalments. Ijarah could be ended by transferring the ownership of the asset to the lessee.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

3.1 Definitions (continued)

Forward Ijarah

Forward Ijarah is an arrangement whereby the Company agrees to provide, on a specified future date, certain specified property on lease to the customer upon its completion and delivery by the developer, from whom the Company has purchased the property. The lease rent under Forward Ijarah commences only upon the customer having received possession of the property from the Company. The arrangement could be ended by transferring the ownership of the asset to the lessee.

Murabaha

An agreement whereby the Company sells to a customer a commodity which the Company has purchased based on a promise received from the customer to buy the item purchased according to specific terms and conditions.

Mudaraba

Mudaraba is an agreement between the Company (Raab-ul-Maal) and another party (Mudarib), whereby Raab-ul-Maal would provide a certain amount of funds, which Mudarib would then invest against a specific share in the profit. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba.

Wakala

An agreement whereby the Company (Muwakkil) provides a certain sum of money to an agent (Wakeel), who invests it according to specific conditions in return for a certain fee which can be a lump sum or a percentage of the amount invested. The Wakeel is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

Musharaka

Musharaka is an agreement between the Company and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.

3.2 Significant accounting policies

Statement of compliance

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and investment properties which are stated at fair value.

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

3.2 Significant accounting policies (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are prepared for the same reporting period as that of the Company, using consistent accounting policies.

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

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's share of equity therein. The interests of non-controlling shareholders are the amounts of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Losses applicable to the non-controlling interests in excess of the non-controlling shareholders' interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling shareholders have a binding obligation and are able to make an additional investment to cover the losses.

Business combination

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. The acquiree identifiable assets, liabilities and contingent liabilities that met the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair value at the acquisition date.

Goodwill arising on the acquisition of a company or any entity represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

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

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

3.2 Significant accounting policies (continued)

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in U.A.E. Dirham (AED), which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

Transactions denominated in foreign currencies are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated. Exchange differences are recognised in consolidated income statement in the period in which they arise.

Revenue recognition

Ijarah

Ijarah income is recognised on a time-apportioned basis over the lease term based on the principal amount outstanding.

Murabaha

Murabaha income is recognised on a time-proportion basis over the period of the contract based on the principal amounts outstanding.

Mudaraba

Income or losses on Mudaraba financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas losses are charged to income on their declaration by the Mudarib.

Musharaka

Income is accounted for on the basis of the reducing balance on a time-apportioned basis that reflects the effective yield on the asset.

Income on Islamic deposits and Wakala placements

Income earned on deposits and Wakala placements is recognised on a time proportion basis.

Dividend income

Dividends on equity instruments are recognised in the income statement when the Group's right to receive the dividends is established.

All other income is recognised when the right to receive is established.

Commission income

Commission income is recognised when related services are rendered.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

3.2 Significant accounting policies (continued)

Allocation of profit

Allocation of profit between the depositors and the shareholders is calculated according to the Group's standard procedures and is approved by the Group's Sharia'a Supervisory Board.

Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its 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 statement of income in the year in which they arise.

Investment in associate

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5: *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

When a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Property and equipment

Property and equipment other than free hold land are carried at cost less accumulated depreciation less impairment, if any. Freehold land is not depreciated and carried at cost.

Depreciation is recognised so as to write off the cost (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis as follows:

	Years
Furniture and fixtures	4
Office and IT equipment	3 – 5
Building	25
Leasehold improvements	5

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

3.2 Significant accounting policies (continued)

Property and equipment (continued)

Expenditure incurred to replace a component of an item of premises, motor vehicles and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of premises, motor vehicles and equipment. All other expenditure is recognised in the consolidated income statement as the expense is incurred.

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

Impairment of tangible assets excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Forfeited income

According to the Sharia'a Supervisory Board, the Group is required to identify any income deemed to be derived from sources not acceptable under Islamic Sharia'a regulations and to set aside such amount in a separate account used to pay for local social activities.

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

3.2 Significant accounting policies (continued)

Financial assets

Initial recognition and subsequent measurement

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through income statement (FVTIS), which are initially measured at fair value.

Financial assets are classified into the following specified categories: 'financing and investing assets', financial assets 'at fair value through income statement (FVTIS), 'available-for-sale' (AFS) financial assets and other financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financing and investing assets

Financing and investing assets consist of Murabaha receivables, Mudaraba, Musharaka, Wakala arrangements and Ijarah contracts and they are measured at amortised cost less any amounts written off and allowance for impairment losses.

Other financing and investing assets are stated at cost less any provisions for impairment and deferred income.

Allowance for impairment is made against financing and investing assets when their recovery is in doubt taking into consideration IFRS requirements for fair value measurement. Financing and investing assets are written off only when all possible courses of action to achieve recovery have proved unsuccessful. Losses expected from future events are not recognised.

Individually assessed financing and investing assets

Individually assessed financing and investing assets mainly represent corporate and commercial financing and investing assets which are assessed individually in order to determine whether there exists any objective evidence that a financing and investing asset is impaired. Financing and investing assets are classified as impaired as soon as there is doubt about the customer's ability to meet payment obligations to the Group in accordance with the original contractual terms.

Collectively assessed financing and investing assets

Impairment losses of collectively assessed financing and investing assets include mainly the allowances on financing and investing assets with common features which are rated on a portfolio basis.

Reversal of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the impairment allowance account accordingly. The write-back is recognised in the consolidated income statement in the period in which it occurs.

3.2 Significant accounting policies (continued)

Financial assets (continued)

Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated cash flow statement comprises cash on hand, non-restricted current accounts with Central Bank and amounts due from/to other entities on demand or with an original maturity of three months or less.

Financial assets at FVTIS

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTIS are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the consolidated statement of income.

Available for sale investments

Available for sale financial assets are non-derivative financial assets that are designated as available for sale. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value. Fair value gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred to the consolidated income statement.

If an available for sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is transferred from equity to the consolidated income statement. Reversals in respect of equity instruments classified as available for sale are not recognised in the consolidated income statement. Reversals of impairment losses on debt instruments classified as available for sale are reversed through the consolidated income statement if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the consolidated income statement.

The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the financial position date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in the consolidated income statement, and other changes are recognized in equity.

3.2 Significant accounting policies (continued)

Financial assets (continued)

Other financial assets

Other financial assets which consist mainly of due from customers (brokerage operation) are stated at amortised cost net of allowance for doubtful debts.

Impairment of financial assets

Financial assets, other than those at FVTIS, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as financing and investing assets and due from customers assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective profit rate.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through consolidated income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in consolidated income statement are not reversed through consolidated income statement. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

3.2 Significant accounting policies (continued)

Financial assets (continued)

Derecognition of financial assets

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

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, plus direct issue costs.

Other financial liabilities

Other financial liabilities, including wakala deposits and account payables are initially measured at fair value, plus transaction costs. Other financial liabilities are subsequently measured at amortised cost.

Derecognition of financial liabilities

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

3.2 Significant accounting policies (continued)

Financial liabilities and equity instruments issued by the Group (continued)

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of the consolidated financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Employees' end of service indemnity

Provision for expatriate employees' end of service indemnity is made in accordance with the U.A.E. labour laws, and is based on current basic remuneration and cumulative years of service at the consolidated statement of financial position date.

Defined contribution plan

U.A.E. National employees in the United Arab Emirates are members of the Government-managed retirement pension and social security benefit scheme. As per Federal Labour Law No. 7 of 1999, the Group is required to contribute 15% of the "contribution calculation salary" of U.A.E. payroll costs to the retirement benefit scheme to fund the benefits. The employees are also required to contribute 5% of the "contribution calculation salary" to the scheme. The only obligation of the Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the consolidated income statement for the year.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Operating leases

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

4 Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The significant judgments and estimates made by management, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment losses on financing and investing assets

The impairment allowance for financing and investing assets is established through charges to the consolidated income statement.

Impairment losses for individually assessed financing and investing assets are determined by an evaluation of exposure on a case-by-case basis. The following factors are considered by management when determining allowance for impairment on individual financing and investing assets which are significant:

- The amount expected to be realised on disposals of collaterals.
- The Group's ability to enforce its claims on the collaterals and associated cost of litigation.
- The expected time frame to complete legal formalities and disposals of collaterals.

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

Impaired financing and investing assets continue to be classified as impaired unless they are brought fully current and the collection of scheduled profit and principal is considered probable.

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

Key sources of estimation uncertainty (continued)

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:
- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimations. The Group calibrates the valuation techniques periodically and tests them for validity using either prices from observable current market transactions in the same instrument or from other available observable market data.

Classification of investments

Management decides on acquisition of an investment whether it should be classified as carried at fair value through profit and loss or available for sale.

The Group classifies investments as Investment at FVTIS if they are acquired primarily for the purpose of making a short term profit by the dealers. Changes in fair values are reported as part of consolidated income statement.

All other investments are classified as available for sale.

Impairment of investments

The Group treats available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and discount factors for unquoted equities.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

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

Critical judgment in applying the Group's accounting policies

Property and equipment

The cost of property and equipment is depreciated over the estimated useful life of the asset. The estimated useful life is based on expected usage of the asset and expected physical wear and tear, which depends on operational factors. The management has not considered any residual value, as it is deemed immaterial.

Impairment of goodwill

The Group determines whether goodwill is impaired on at least an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

5 Balances and deposits with banks and other financial institutions

	2010 **AED'000**	2009 AED'000
Current accounts	**23,683**	15,127
Deposits with Islamic institutions	**220,000**	197,000
	243,683	212,127

Deposits with Islamic institutions mature within 3 months from the date of deposit, except for an amount of AED 70 million (2009: 58 million) which matures after 3 months. Average profit rate on these deposits ranges from 3.1% to 5.4% (2009: 4.5% to 5.3%) per annum.

All deposits and amounts are held with financial institutions within the United Arab Emirates.

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

6 Financing and investing assets

	2010 AED'000	2009 AED'000
Financing		
Ijarah	**199,648**	182,078
Forward Ijarah	**110,253**	138,889
Vehicle Murabaha	**19,188**	31,775
Plot Murabha	**22,119**	23,592
Home Murabaha	**203**	435
Commodity Murabaha	**124,480**	132,210
Shares Murabaha	**17,340**	17,340
	493,231	526,319
Provision for impairment	**(7,814)**	(5,366)
	485,417	520,953
Investing		
Musharaka	**6,790**	11,982
Net total financing and investing assets	**492,207**	532,935

All financing and investing assets are U.A.E. based.

Provision for impairment movement:

	2010 AED'000	2009 AED'000
Individual impairment		
1 January	**5,366**	188
Impairment allowance for the year	**3,406**	5,178
Recoveries	**(4,448)**	-
31 December	**4,324**	5,366
Collective impairment		
1 January	-	-
Impairment allowance for the year	**3,490**	-
31 December	**3,490**	-
Total impairment	**7,814**	5,366

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

7 Investment properties

	2010 AED'000	2009 AED'000
1 January	75,975	169,900
Acquired during the year	14,585	4,654
Transfer to property and equipment (Note 10)	-	(52,324)
Changes in fair value	(5,234)	(46,255)
	85,326	75,975

8 Investment in securities

	2010 AED'000	2009 AED'000
Investments carried at fair value through profit and loss		
Quoted securities	15,444	16,846
Available for sale investments		
Unquoted securities	177,712	195,977
Quoted securities	2,893	5,296
	196,049	218,119

Available-for-sale investments include an amount of AED 3 million (2009: AED 3 million) registered in the name of certain shareholders of the subsidiary on trust and for the benefit of the subsidiary.

9 Investment in an associate

Summarised financial information in respect of the Group's associate is set out below:

	2010 AED'000	2009 AED'000
Group's share in:		
Total assets	33,318	37,558
Total liabilities	(11,108)	(13,035)
Net assets	**22,210**	24,523
Group's share of net loss of associate	(2,314)	(3,903)

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

10 Property and equipment

	Furniture and fixtures AED'000	Office and IT equipment AED'000	Motor vehicles AED'000	Land AED'000	Office building AED'000	Capital work-in-progress AED'000	Total AED'000
Cost							
1 January 2009	3,000	4,273	108	-	22,411	-	29,792
Additions during the year	1,363	5,017	-	-	4,062	7,724	18,166
Transfers from investment properties	-	-	-	52,324	-	-	52,324
1 January 2010	4,363	9,290	108	52,324	26,473	7,724	100,282
Additions during the year	387	644	-	-	-	-	1,031
Transfers	-	-	-	-	7,724	(7,724)	-
Disposals during the year	(9)	-	-	-	-	-	(9)
31 December 2010	**4,741**	**9,934**	**108**	**52,324**	**34,197**	**-**	**101,304**
Accumulated depreciation							
1 January 2009	938	2,426	73	-	-	-	3,437
Charge for the year	942	2,241	22	-	1,234	-	4,439
1 January 2010	1,880	4,667	95	-	1,234	-	7,876
Charge for the year	1,015	2,476	13	-	1,709	-	5,213
Disposals	(9)	-	-	-	-	-	(9)
31 December 2010	**2,886**	**7,143**	**108**	**-**	**2,943**	**-**	**13,080**
Carrying amount							
31 December 2010	**1,855**	**2,791**	**-**	**52,324**	**31,254**	**-**	**88,224**
31 December 2009	2,483	4,623	13	52,324	25,239	7,724	92,406

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

11 Other assets

	2010 AED'000	2009 AED'000
Advances paid for the purchase of investment properties	**710**	8,176
Advances to suppliers	**451**	740
Advances paid for the purchase of shares	**7,149**	7,149
Prepayments	**1,760**	1,723
Profit receivable	**2,129**	934
Due from customers (brokerage operation)	**41,962**	45,022
Other	**12,414**	10,003
	66,575	73,747
Provision for due from customers (brokerage operation)	**(17,930)**	(9,973)
	48,645	63,774

Movement in the provision for due from customers (brokerage operation):

	2010 AED'000	2009 AED'000
Balance at 1 January	**9,973**	882
Charged during the year	**7,957**	9,091
Balance at 31 December	**17,930**	9,973

12 Wakala deposits

Wakala deposits carry profit rates ranges between 1.0% to 4.7% (2009: 3.5% to 4.5%) per annum and mature between 12 days to 3 year. Any profit exceeding the expected profit after deduction of Wakala fee may be retained by the Group as an additional incentive.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

13 Other liabilities

	2010 AED'000	2009 AED'000
Employees' end of service benefits	**1,789**	1,420
Accounts payable	**1,540**	11,543
Profit payable	**1,313**	1,309
Accrued liabilities	**1,699**	1,722
Bank overdraft – subsidiary	**16,150**	12,934
Other	**14,055**	16,182
	36,546	45,110

The overdraft is secured by personal, joint and several guarantees of the subsidiary shareholders.

Movement in employees' end of service benefit:

	2010 AED'000	2009 AED'000
Balance at 1 January	**1,420**	876
Charged during the year	**819**	845
Payment made during the year	**(450)**	(301)
	1,789	1,420

14 Share capital

	2010 AED'000	2009 AED'000
Authorised issued and paid up capital: 1 billion ordinary shares of AED 1 each	**1,000,000**	1,000,000

15 Statutory reserve

In accordance with Article (82) of Union Law No. 10 of 1980, Federal Commercial Companies Law, the Company has established a statutory reserve by appropriation of 10% of net profit for each year until the reserve equals 50% of the share capital. This reserve is not available for distribution.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

16 General reserve

In accordance with the Articles of Association of the Company, 10% of the Company's net profit for the year is transferred to the general reserve until the reserve equals to 50% of the paid up share capital. This reserve may be used for purposes determined by the Ordinary General Assembly pursuant to a proposal by the Board of Directors.

17 Income from financing and investing assets

	2010 AED'000	2009 AED'000
Ijarah	**24,402**	23,580
Musharaka	**650**	1,089
Murabaha	**15,944**	15,776
	40,996	40,445

18 Income from Islamic deposits and Wakala placements

	2010 AED'000	2009 AED'000
Income from Hiba	**1,184**	501
Income on savings accounts	**161**	264
Income on Wakala placements	**5,524**	7,416
Income from Mudaraba	**-**	58
Income from Murabaha placements	**579**	1,238
	7,448	9,477

19 Other income

	2010 AED'000	2009 AED'000
Processing and other fees	**718**	1,992
Gain on disposal of available-for-sale investments	**941**	9
Other	**916**	5,067
	2,575	7,068

20 General and administrative expenses

	2010 AED'000	2009 AED'000
Staff costs	**19,965**	20,614
Depreciation	**5,213**	4,439
Rent expense	**1,647**	1,889
Advertisement and marketing	**923**	5,405
Repair and Maintenance	**1,155**	895
Consulting, legal and professional	**1,013**	1,366
Sharia Board fees	**623**	744
Telephone, fax and postage	**1,084**	929
Other	**4,920**	5,096
	36,543	41,377

21 Provision for impairment

	2010 AED'000	2009 AED'000
Provision for impairment on financing and investing assets (Note 6)	**2,448**	5,178
Provision for impairment on due from customers (brokerage operation) (Note 11)	**7,957**	9,091
Provision for impairment on advance against property	**7,465**	-
Impairment of goodwill	**6,437**	-
Impairment of available for sale investments	**12,316**	-
	36,623	14,269

22 Cash and cash equivalents

	2010 AED'000	2009 AED'000
Cash and balances with Central Bank	**617**	3,063
Current accounts with banks	**23,683**	15,127
Deposits with Islamic institutions	**220,000**	197,000
	244,300	215,190
For the purpose of the consolidated statement of cash flow, Cash and cash equivalent exclude:		
Islamic deposits with original maturity of more than 3 months from the date of deposit	**(70,000)**	(58,000)
Bank overdraft – subsidiary (Note 13)	**(16,150)**	(12,934)
Cash and cash equivalents	**158,150**	144,256

23 Related party transactions

The Group enters into transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard 24: *Related Party Disclosures*. Related parties comprise companies and entities under common ownership and/or common management and control, their partners and key management personnel. The management decides on the terms and conditions of the transactions and services received/rendered from/to related parties as well as on other charges.

a) Balances with related parties included in the consolidated statement of financial position are as follows:

	Key Shareholders AED'000	**Directors and key management AED'000**	**Other related parties AED'000**
Year ended 31 December 2010			
Bank balances and cash	**503**	-	-
Financing and investing assets	**81,218**	**20,263**	**46,985**
Wakala deposits	-	-	**45,994**
Other liabilities	-	-	**10,011**
Year ended 31 December 2009			
Bank balance and cash	174	-	-
Financing and investing assets	56,027	12,445	71,916
Wakala deposits	25,729	-	81,417
Other liabilities	6,006	-	-

b) Transactions with related parties included in the consolidated statement of income are as follows:

	Key Shareholders AED'000	**Directors and key management AED'000**	**Other related parties AED'000**
31 December 2010			
Income from financing and investing assets	**3,556**	**287**	**1,745**
Depositors' share of profits	-	-	**2,768**
Other income	-	-	**455**
31 December 2009			
Income from financing and investing assets	3,660	721	5,274
Depositors' share of profits	472	-	3,813
Other income	374	-	1,037

23 Related party transactions (continued)

c) Compensation paid to key management personnel of the Group is as follows:

	2010 AED'000	2009 AED'000
Short-term benefits	**3,180**	3,180
Employees' end of service benefits	**107**	1,097
	3,287	4,277

24 Commitments and contingent liabilities

i) Commitments

	2010 AED'000	2009 AED'000
Irrevocable commitments to extend credit (a)	**7,420**	63,338
Purchase of properties (b)	**12,496**	13,735
	19,916	77,073

(a) Irrevocable commitments to extend credit include commitments to extend financing designed to meet the requirements of the Group's customers. Commitments generally have fixed expiration dates, or other termination clauses, and normally require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

(b) At year-end, the Group was committed to purchase investment properties.

ii) Contingent liabilities

The Group has issued financial and non-financial guarantees on behalf of some customers and staff amounting to AED 128 million (2009: AED 27 million).

The Group has given a corporate guarantee, issued by a local financial institution, in favour of the Central Bank of the U.A.E. for an amount of AED 35 million (2009: AED 35 million). This guarantee is provided to the Central Bank of the U.A.E. against issuance of the license and management does not anticipate that any material liability will arise.

The Group's subsidiary has issued bank guarantees for an amount of AED 70 million in favour of Dubai Financial Market and Abu Dhabi Stock Exchange.

25 Financial risk management

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.

The Group is exposed to credit risk, liquidity risk and market risk. The Group is also subject to operational risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored throught the Group's strategic planning process.

Operational risk

The operational risk results from failure of systems, internal processes, people and external interventions in terms of frauds and forgeries. Severity of loss due to operational risk factors is highly dependent on the nature and frequency of failure. The Group gives high priority to the management of operational risk. The foundation of credible operational risk discipline is a robust risk and control self assessment process which ensures that;

- all transactions are properly authorised,
- all transactions are properly recorded,
- assets are safeguarded,
- continuity of business plan are well defined and tested,
- sound ethical standards are adhered to, and
- full compliance to all laws regulations and corporate policies.

The Audit and Compliance Committee conducts risk based audits of all units in the Group on a regular basis.The findings are shared with the Audit Committee of the board and the Audit and Compliance Committee of the Management.

The Group maintains a detailed record of operational risk events and resultant losses and ensures proper control mechanism is put in place to avoid recurrence. Zero tolerance for unethical behaviour is part of the overall risk framework.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

25 Financial risk management (continued)

Credit risk

Credit risk is the risk of loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's financing and investing assets, Wakala Placements and investments. Credit risk can also arise from financial guarantees. Credit risk is the single largest risk for the Group business, management therefore carefully manages its exposure to credit risk.

There are formal procedures to assess and monitor credit risk as part of the process of advancing finance. In addition, management regularly reviews the state of its financing and investing assets and provision is made for any specific balances considered doubtful of recovery. The credit risk is reduced since financing and investing assets are considered to be secured by ownership, mortgage or control over the assets financed. The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding.

The Group's customers are mainly based in the United Arab Emirates. The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position:

	Gross maximum exposure	
	2010	2009
	AED'000	AED'000
Cash and balances with Central Bank	**617**	3,063
Balances and deposits with banks and other financial institutions	**243,683**	212,127
Financing and investing assets	**492,207**	532,935
Investment in securities	**196,049**	218,119
Other assets	**46,434**	61,311
	978,990	1,027,555
Contingent liabilities	**127,792**	148,449
Commitments	**7,420**	13,735
	135,212	162,184

All the assets financed by the Group are within the United Arab Emirates.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

25 Financial risk management (continued)

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its Financing and investing portfolio.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of impaired assets.

	Due from customers (brokerage operation) 2010 AED'000	Financing and investing assets 2010 AED'000	Due from customers (brokerage operation) 2009 AED'000	Financing and investing assets 2009 AED'000
Impaired				
Overdue by 90 days	-	-	-	189
Overdue by 180 days	-	609	14,761	24,561
Overdue by 365 days	41,962	9,562	-	354
Gross amount	41,962	10,171	14,761	25,104
Allowance for Impairment	(17,930)	(7,814)	(9,973)	(5,366)
	24,032	2,357	4,788	19,738
Past due but not impaired	-	116,923	29,521	26,111
Neither past due nor Impaired				
Gross amount	-	372,927	740	487,086
Carrying amount	24,032	492,207	35,049	532,935

Financing and investing assets with renegotiated terms

Financing and investing assets with renegotiated terms are assets that have been restructured due to deterioration in the customer's financial position. The Group does not usually offer concessions simply because of the customer's financial position. Rather, it reschedules the outstanding to improve the likelihood of collection. Once the financing is restructured, it remains in this category grade independent of satisfactory performance after restructuring.

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

25 Financial risk management (continued)

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: currency risk, profit rate risk, and other price risk, such as equity risk. Financial instruments affected by market risk include financing and deposits and available-for-sale investments.

The Group has established risk management policies and limits within which exposure to market risk is monitored, measured and controlled. Management is responsible for developing and implementing a market risk policy and risk measuring/monitoring methodology and for reviewing all new trading products and product limits.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risk on its available for sale investment and advances for purchase of shares held in Egyptian Pounds (EGP) and it is also exposed to Euro for its available for sale of investments. The table below indicates the Group's foreign currency exposure at 31 December, as a result of its financial assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the AED currency rate against the Egyptian Pound and Euro, with all other variables held constant, on the consolidated income statement.

	Increase/decrease in EGP rate to	**Effect on profit AED'000**
2010	**3%**	**3,852**
2009	3%	4,053

	Increase/decrease in Euro rate to	**Effect on profit AED'000**
2010	**3%**	**1,078**
2009	3%	338

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

25 Financial risk management (continued)

Equity price risk

The following table demonstrates the sensitivity of the cumulative changes in fair value to reasonably possible changes in equity prices, with all other variables held constant. The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown.

	Change in equity price	Net effect on equity AED'000
2010		
Shares listed in Security Market	**10%**	**1,833**
2009		
Shares listed in Security Market	10%	2,214

Profit rate risk

The Group is exposed to profit rate risk on its profit bearing assets and liabilities (financing and investing assets, bank deposits and Wakala).

The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates on the Group's profit for the year, based on the floating rate financial assets and financial liabilities held at 31 December 2010.

The following table demonstrates the sensitivity of the consolidated income statement to reasonably possible changes in profit rates with all other variable held constant.

	Increase/decrease in basis points	Effect on profit for the year AED'000
2010	**50**	**2,906**
2009	50	2,805

There is no impact on the Group's equity, other than implied effect through profit and loss.

Liquidity risk

Liquidity risk is the risk that a Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades 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 and cash equivalents.

The table below summarises the maturity of the Group's financial assets and financial liabilities as at 31 December 2010 and 2009, based on contractual payment dates and current market profit rate:

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

25 Financial risk management (continued)

Maturities of financial assets and liabilities - 31 December 2010

	Within 3 months AED'000	3 to 6 months AED'000	6 to 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Financial assets						
Cash and balances with U.A.E. Central Bank	617	-	-	-	-	617
Balances and deposits with banks and other financial institutions	173,683	10,000	60,000	-	-	243,683
Financing and investing assets	1,162	4,068	64,507	124,595	297,885	492,207
Investment in securities	196,049	-	-	-	-	196,049
Other assets	2,129	3,692	7,149	33,464	-	46,434
Total	**373,640**	**17,760**	**131,656**	**158,059**	**297,885**	**978,990**
Financial liabilities	15,761	7,636	76,448	52,563	-	152,408
Wakala deposits	16,150	2,853	3,489	14,054	-	36,546
Other liabilities						
Total	**31,911**	**10,489**	**79,937**	**66,617**	**-**	**188,954**

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

25 Financial risk management (continued)

Maturities of financial assets and liabilities - 31 December 2009

	Within 3 months AED'000	3 to 6 months AED'000	6 to 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Financial assets						
Cash and balances with U.A.E. Central Bank	3,063	-	-	-	-	3,063
Balances and deposits with banks and other financial institutions	154,127	48,000	10,000	-	-	212,127
Financing and investing assets	20,354	26,078	70,119	98,215	318,169	532,935
Investment in securities	218,119	-	-	-	-	218,119
Other assets	194	2,463	51,505	7,149	-	61,311
Total	395,857	76,541	131,624	105,364	318,169	1,027,555
Financial liabilities						
Wakala deposits	122,179	78	27,000	2,578	-	151,835
Other liabilities	12,934	15,280	2,189	10,514	4,193	45,110
Total	135,113	15,358	29,189	13,092	4,193	196,945

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

25 Financial risk management (continued)

Fair value measurements

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2010				
Financial assets at FVTIS				
Equities	15,444	-	-	15,444
Available-for-sale Investments				
Equities	2,893	-	166,609	169,502
Investment funds	-	-	9,103	9,103
Sukuk	-	-	2,000	2,000
Total	18,337	-	177,712	196,049

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2009				
Financial assets at FVTIS				
Equities	16,846	-	-	16,846
Available-for-sale Investments				
Equities	5,296	-	173,684	178,980
Investment funds	-	-	18,052	18,052
Sukuk	-	-	4,241	4,241
Total	22,142	-	195,977	218,119

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

25 Financial risk management (continued)

Fair value measurements (continued)

There were no transfers between level 1 and 2 during the year.

Reconciliation of Level 3 fair value measurements of financial assets

	2010	2009
	AED'000	AED'000
1 January	**195,977**	149,725
Net movement during the year	**(12,059)**	46,356
Other comprehensive loss	**(6,206)**	(104)
31 December	**177,712**	195,977

There is no financial liability as at 31 December 2009 and 2010 which is carried at fair value.

26 Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2009.

27 Zakat

Zakat as approved by the Company's Fatwa and Sharia Supervisory Board (FSSB) amounted to AED 0.02228 per share. This information is to be communicated to all shareholders through the Company's website and shareholders are required to pay them directly.

28. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 15 March 2011.