

Amlak Finance PJSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2007

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AMLAK FINANCE PJSC

Report on the Financial Statements

We have audited the accompanying financial statements of Amlak Finance PJSC and its subsidiaries (the 'Company'), which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the Articles and Memorandum of Association of the Company, the UAE Federal Law No. 8 of 1984 (as amended) and Federal Law No. 10 of 1980. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

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

Report on other Legal and Regulatory Requirements

We also confirm that, in our opinion, the financial statements include, in all material respects, the applicable requirements of the UAE Federal Law No. 8 of 1984 (as amended), Federal Law No. 10 of 1980 and the Articles and Memorandum of Association of the Company; proper books of account have been kept by the Company, and the contents of the report of the Board of Directors relating to these financial statements are consistent with the books of account. 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 Federal Law No. 8 of 1984 (as amended), Federal Law No. 10 of 1980 or of the Articles and Memorandum 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.



Signed by
Farrukh Seer
Partner
Registration No. 491

3 March 2008

Dubai, United Arab Emirates

Amlak Finance PJSC

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	<i>Notes</i>	<i>2007 AED'000</i>	<i>2006 AED'000</i>
REVENUE			
Income from financing and investing assets	3	409,123	276,111
Processing and other fees		55,135	33,971
Gain on investments	4	58,820	4,133
Income on deposits		20,532	25,398
Profit on sale of properties held for sale	5	133,249	-
Other income	6	29,341	40,348
		<u>706,200</u>	<u>379,961</u>
General and administrative expenses	7	(145,125)	(86,701)
Share of profit of associate company	12	7,782	10,449
Profit before distributions to depositors		<u>568,857</u>	<u>303,709</u>
Distribution to depositors	8	(265,995)	(173,286)
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS		<u><u>302,862</u></u>	<u><u>130,423</u></u>
Basic and diluted earnings per share (UAE Dirhams)	9	<u><u>0.20</u></u>	<u><u>0.09</u></u>

The attached notes 1 to 29 form part of these financial statements.

Amlak Finance PJSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

	Notes	2007 AED'000	2006 AED'000
ASSETS			
Cash and deposits with banks	10	495,843	268,228
Properties held for sale		2,030,335	-
Financing and investing assets	11	6,227,400	4,144,548
Investments in associates	12	155,134	18,720
Other investments	13	371,049	526,542
Other assets	14	165,185	79,142
Furniture, fixtures and office equipment	15	18,665	9,064
TOTAL ASSETS		9,463,611	5,046,244
EQUITY AND LIABILITIES			
Equity			
Share capital	16	1,500,000	1,500,000
Statutory reserve	17	60,105	29,819
General reserve	17	60,105	29,819
Special reserve	17	62,274	-
Cumulative changes in fair value		78,678	(6,824)
Foreign currency translation reserve	17	824	-
Retained earnings		231,683	215,950
Proposed dividend	18	150,000	-
Total equity		2,143,669	1,768,764
Liabilities			
Sukuk payable	19	734,400	697,680
Investment deposits	20	5,265,543	2,508,577
Payable for properties held for sale		1,208,872	-
Accrued Zakat		14,793	13,238
Employees' end of service benefits	21	1,825	1,158
Other liabilities	22	94,509	56,827
Total liabilities		7,319,942	3,277,480
TOTAL EQUITY AND LIABILITIES		9,463,611	5,046,244

Approved by the Board of Directors on 3 March 2008 corresponding to 25 Saffar 1429 and signed on its behalf by:



Chairman



Director



Chief Executive Officer

Amlak Finance PJSC

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	2007 AED'000	2006 AED'000
OPERATING ACTIVITIES			
Profit for the year attributable to the shareholders		302,862	130,423
Adjustments for:			
Share of profit of associate company	12	(7,782)	(10,449)
Depreciation	15	4,479	2,560
Gain on investments	4	(58,820)	(4,133)
Provision for impairment for financing and investing activities		-	1,618
Provision for impairment for other investments		21,033	18,657
		<u>261,772</u>	<u>138,676</u>
Working capital changes:			
Financing and investing assets		(2,082,852)	(943,508)
Other assets		(86,043)	95,830
Investment deposits		2,756,966	339,369
Accrued Zakat		(11,078)	-
Other liabilities		36,699	13,075
		<u>875,464</u>	<u>(356,558)</u>
INVESTING ACTIVITIES			
Investment in associate company		(128,632)	(2,214)
Purchase of other investments		(377,293)	(331,003)
Payment for properties held for sale		(821,463)	-
Purchase of furniture, fixtures and office equipment	15	(14,080)	(4,711)
Proceeds from disposal of other investments		656,075	184,789
Dividend received from associate company	12	-	28,855
		<u>(685,393)</u>	<u>(124,284)</u>
FINANCING ACTIVITY			
Issue of Sukuk		36,720	-
		<u>36,720</u>	<u>-</u>
INCREASE IN CASH AND CASH EQUIVALENTS			
		226,791	(480,842)
Foreign exchange translation reserve		824	
Cash and cash equivalents at the beginning of the year		233,228	714,070
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10	<u>460,843</u>	<u>233,228</u>

The attached notes 1 to 29 form part of these financial statements.

Amlak Finance PJSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Share capital AED '000	Statutory reserve AED '000	General reserve AED '000	Special reserve AED '000	Cumulative changes in fair value AED '000	Foreign currency translation reserve AED '000	Retained earnings AED '000	Proposed dividend AED '000	Total AED '000
Balance at 1 January 2006	1,500,000	16,777	16,777	-	132,067	-	119,607	-	1,785,228
Realised gains on available-for-sale investments reclassified to income statement on disposal	-	-	-	-	(18,524)	-	-	-	(18,524)
Net unrealised gains on available-for-sale investments	-	-	-	-	(120,367)	-	-	-	(120,367)
Total income and expense for the year recognised directly in equity	-	-	-	-	(138,891)	-	-	-	(138,891)
Profit for the year	-	-	-	-	-	-	130,423	-	130,423
Total income and expenses for the year	-	-	-	-	(138,891)	-	130,423	-	(8,468)
Transfer to statutory reserve	-	13,042	-	-	-	-	(13,042)	-	-
Transfer to general reserve	-	-	13,042	-	-	-	(13,042)	-	-
Zakat	-	-	-	-	-	-	(6,996)	-	(6,996)
Board of Directors' fees	-	-	-	-	-	-	(1,000)	-	(1,000)
Balance at 31 December 2006	1,500,000	29,819	29,819	-	(6,824)	-	215,950	-	1,768,764

The attached notes 1 to 29 form part of these financial statements.

Amlak Finance PJSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	<i>Share capital AED '000</i>	<i>Statutory reserve AED '000</i>	<i>General reserve AED '000</i>	<i>Special reserve AED '000</i>	<i>Cumulative changes in fair value AED '000</i>	<i>Foreign currency translation reserve AED '000</i>	<i>Retained earnings AED '000</i>	<i>Proposed dividend AED '000</i>	<i>Total AED '000</i>
Balance at 1 January 2007	1,500,000	29,819	29,819	-	(6,824)	-	215,950	-	1,768,764
Realised gains on available-for-sale investments reclassified to income statement on disposal	-	-	-	-	37,875	-	-	-	37,875
Net unrealised gains on available-for-sale investments	-	-	-	-	47,627	-	-	-	47,627
Foreign currency translation	-	-	-	-	-	824	-	-	824
Total income and expense for the year recognised directly in equity	-	-	-	-	85,502	824	-	-	86,326
Profit for the year	-	-	-	-	-	-	302,862	-	302,862
Total income and expenses for the year	-	-	-	-	85,502	824	302,862	-	389,188
Transfer to statutory reserve	-	30,286	-	-	-	-	(30,286)	-	-
Transfer to general reserve	-	-	30,286	-	-	-	(30,286)	-	-
Transfer to special reserve	-	-	-	62,274	-	-	(62,274)	-	-
Zakat	-	-	-	-	-	-	(12,633)	-	(12,633)
Board of Directors' fees	-	-	-	-	-	-	(1,650)	-	(1,650)
Proposed dividend	-	-	-	-	-	-	(150,000)	150,000	-
Balance at 31 December 2007	1,500,000	60,105	60,105	62,274	78,678	824	231,683	150,000	2,143,669

The attached notes 1 to 29 form part of these financial statements.

1 ACTIVITIES

Amlak Finance PJSC (the 'Company') was incorporated in Dubai on 11 November 2000 as a private shareholding company in accordance with UAE Federal Law No (8) of 1984, as amended.

At the constituent shareholders' meeting held on 9 March 2004, a resolution was passed to convert the Company to a public joint stock company.

Further, a resolution was passed to transform the Company's activities to be in full compliance with the Islamic Sharia'a rules and principles. The process was completed on 1 June 2004. As a result, the Company transformed its conventional financing products into Islamic financing products during the five month period ended 31 May 2004 after negotiations and agreement with its customers.

The Company is licensed by the UAE Central Bank as a finance company and is now primarily engaged in financing and investing activities such as Ijara, Murabaha, Mudaraba and Musharaka. The activities of the Company are conducted in accordance with Islamic Sharia'a, which prohibits usury, and within the provisions of its Articles and Memorandum of Association. The Company's shares are listed on Dubai Financial Markets.

The registered address of the Company is P.O. Box 2441, Dubai, United Arab Emirates.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available for sale investments.

The consolidated financial statements have been presented in UAE Dirhams and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates laws.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities controlled by it as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting period as the Company and are prepared using consistent accounting policies.

All inter-company balances, transactions, income and expenses and profits and losses resulting from inter-company transactions that are recognized in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continues to be consolidated until the date such control ceases. The acquisition of a subsidiary is accounted for using the purchase method of accounting. Minority interests represent the portion of profit or loss and net assets in subsidiary, not held by the Company and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

2.1 BASIS OF PREPARATION (continued)

The principal activities of the subsidiaries are the same as those of the parent company. The extent of the Company's shareholding in the subsidiaries is as follows:

<i>Company</i>	<i>Basis for consolidation</i>	<i>Country of Incorporation</i>	<i>Percentage Shareholding</i>	
			<i>2007</i>	<i>2006</i>
Amlak Finance & Real Estate Investment (S.A.E.)	<i>Subsidiary</i>	<i>Egypt</i>	<i>100%</i>	<i>100%</i>
Amlak International LLC – Dubai	<i>Subsidiary</i>	<i>UAE</i>	<i>100%</i>	-
Amlak Holding FZCo	<i>Subsidiary</i>	<i>UAE</i>	<i>100%</i>	-
Park Investment LLC ('Park')	<i>SPV</i>	<i>UAE</i>	<i>100%</i>	<i>100%</i>
Tasabeeh Investment LLC ('Tasabeeh')	<i>SPV</i>	<i>UAE</i>	<i>100%</i>	<i>100%</i>
Waraqaa Heights LLC ('Waraqaa')	<i>SPV</i>	<i>UAE</i>	<i>100%</i>	-

Park and Tasabeeh are Special Purpose Vehicles (SPVs) set up by the Company for trading of shares in the local market on behalf of the Company. These entities are registered in the name of a director and a former director of the Company who have confirmed that they are holding the ownership of these entities in trust for and on behalf of the Company.

Shareholding in Waraqaa was acquired from a related party as of 31 December 2007 (note 23). This entity is set up to own a plot of land in Dubai.

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies are consistent with those used in the previous year with the exception of adoption of IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements (amended) which gave rise to additional disclosures. The effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures

IFRS 7 requires disclosures that enable the users to evaluate the significance of the financial instruments of the Company and the nature and extent of risks arising from financial instruments. Comparative information for 2006 has been accordingly restated.

IAS 1 Presentation of financial statements (amended)

IAS 1 requires disclosures that enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital.

2.3 SIGNIFICANT MANAGEMENT ESTIMATES AND JUDGMENTS*Use of estimates:*

The preparation of the financial statements requires management to use its judgements and make estimates and assumptions that may affect the reported amount of financial assets and liabilities, revenues, expenses, disclosure of contingent liabilities and the resultant provisions and fair value for the year. Such estimates are necessarily based on assumptions about several factors and actual results may differ from reported amounts as described below:

Impairment losses on financing and investing assets

The Company reviews its problem financing and investing assets on a regular basis to assess whether a provision for impairment should be recorded in the income statement. In particular, judgment 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 the probability of default and probable losses in the event of default, the value of the underlying security, and realization costs.

2.3 SIGNIFICANT MANAGEMENT ESTIMATES AND JUDGMENTS (continued)

Collective impairment provisions on financing and investing assets

In addition to specific provisions against individually significant financing and investing assets, the Company also makes a collective impairment provision against such assets 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 estimates based on length of time past due. The estimates are adjusted to reflect current economic changes.

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 Company 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.

Judgments

Classification of investments

Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, carried at fair value through profit or loss, or available-for-sale.

For those investments deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and in particular the Company has the intention and ability to hold these to maturity.

The Company classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

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

All other investments are classified as available-for-sale.

Impairment of equity investment

The Company treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists giving due consideration to other factors, including normal volatility in share prices for quoted equities and the future cash flows and the discount factors for unquoted equities.

2.4 DEFINITIONS

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

Sharia'a

Sharia'a is the body of Islamic law and is essentially derived from The Quran and The Sunna'h. The Company, being an Islamic Financial Institution, incorporates the essence of Sharia'a 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 rent installments. Ijarah could end by transferring the ownership of the asset to the lessee.

2.4 DEFINITIONS (continued)

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. The selling price comprises the cost of the commodity and an agreed profit margin.

Mudaraba

An agreement between the Company and a third party whereby one party would provide a certain amount of funds, which the other party (Mudarib) would then invest in a specific enterprise or activity 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 provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Revenue recognition

Ijarah

Ijarah income is recognised on a time-proportion basis over the lease term.

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 recognized on an accrual basis if they can be reliably estimated. Otherwise, income is recognized 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.

Processing fees

Processing fees estimated to cover processing costs are recognized when related facilities are approved.

Income on deposits

Income on deposits is accrued based on the estimates of the management and past history of income on similar deposits.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Sale of properties held for sale

Revenue on sale of property is recognised on the basis of the full accrual method as and when all of the following conditions are met:

- a) A sale is consummated and contracts are signed;
- b) The buyer's investment, to the date of the financial statements is adequate (20% and above) to demonstrate a commitment to pay for the property;
- c) The Company's receivable is not subject to future subordination;
- d) The Company has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property; and
- e) Work to be completed is both easily measurable and accrued or is not significant in relation to the overall value of the contract.

Allocation of profit

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

Financial instruments

The Company recognises financial assets, including financing and investing assets, or financial liabilities only when the Company becomes a party to the contractual provisions of a financial instrument. On initial recognition, the financial assets and financial liabilities are measured at fair value plus, in case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial measurement, the financial assets are measured at fair value except for loan and receivables which are measured at amortised cost less any provision for impairment. Financial liabilities, after initial recognition, are measured at amortised cost.

Investments in associates

The Company's investments in associates are accounted for under the equity method of accounting. These are entities over which the Company exercises significant influence and which are neither subsidiaries nor joint ventures. Investments in associates are carried in the balance sheet at cost, plus post-acquisition changes in the Company's share of net assets of the associate, less any impairment in value. The income statement reflects the Company's share of the results of its associates.

Unrealised profits and losses resulting from transactions between the Company and its associate are eliminated to the extent of the Company's interest in the associate.

Properties held for sale

Properties held for sale are valued at the lower of cost and net realisable value. Cost comprises all costs of purchase and other directly attributable costs incurred in bringing each property to its location and condition. Net realisable value signifies the estimated selling price in the ordinary course of the business less estimated costs necessary to be incurred on disposal.

Other investments

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other investments (continued)

Investments carried at fair value through profit or loss

Investments are classified as fair value through profit or loss if the fair value of the investment can be reliably measured and the classification as fair value through profit or loss is as per the strategy of the Company. After initial recognition, such investments are subsequently measured at fair value. All related gains or losses are taken to income statement.

Available-for-sale

After initial recognition, investments classified as "available-for-sale," are remeasured at fair value. Unrealised gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. Upon impairment any losses, or upon derecognition any gain or loss, previously reported as "cumulative changes in fair value" within equity is included in the income statement for the year.

For unquoted available-for-sale investments, a reasonable estimate of the fair value is determined by reference to the market value of a similar investment or is based on expected discounted cash flows. If fair value cannot be reliably measured, such investments are carried at cost less provision for impairment in value.

Trade and settlement date accounting

All "regular way" purchases and sale of financial assets are recognised on the "trade date", i.e. the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are 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.

Derecognition of financial assets and financial liabilities

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 where:

- (a) the right to receive cash flows from the asset have expired; or
- (b) the Company 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
- (c) either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company 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 Company's continuing involvement in the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances and short-term deposits with an original maturity of three months or less.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Furniture, fixtures and office equipment**

Furniture, fixtures and office equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the estimated useful lives of assets as follows:

Furniture and fixtures	4 - 7 years
Computer and office equipment	3 years
Motor vehicles	4 years

Assets under development are not depreciated.

The carrying values of furniture, fixtures and office equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of furniture, fixtures and office 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 furniture, fixtures and office equipment. All other expenditure is recognised in the income statement as the expense is incurred.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the income statement. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the income statement;
- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions

Provisions are recognized when the Company has an 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.

Zakat

Zakat is computed as per the Company's Articles and Memorandum of Association on the following basis:

- Zakat on shareholders' equity is computed on their zakat pool (shareholders' equity less paid up capital, plus employees' end of service benefits) and is deducted from retained earnings.
- Zakat on the paid up capital is not included in the zakat computation and is payable by the shareholders personally.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end of service benefits

With respect to its national employees, the Company makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are recognised in the income statement when due.

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

Foreign currencies

Transactions in foreign currencies are recorded at rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the exchange rates prevailing at that date. Any gain or loss arising from changes in exchange rates subsequent to the date of a transaction is recognized in the income statement.

Fair values

For securities quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

For unquoted equity investments, fair value is determined by reference to the current market value of a similar investment, or is based on the expected discounted cash flows.

The estimated fair value of deposits with no stated maturity is the amount payable on demand.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Company and accordingly are not included in these consolidated financial statements.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and the Company intends to settle on a net basis.

2.6 FUTURE CHANGES IN ACCOUNTING POLICIES

New pronouncements not yet effective for the year ended 31 December 2007

The Company has not adopted the new accounting standards or interpretations that have been issued but not yet effective. These standards and interpretations, except for revised IAS 1 (revised) and IAS 23 (revised), are not likely to have any significant impact on the financial statements of the Company in the period of their initial application.

IAS 1, Presentation of financial statements, the application of the revised standard will result in amendments to the presentation of the financial statements.

IAS 23, Borrowing costs, has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the standard, the Company will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

3 INCOME FROM FINANCING AND INVESTING ASSETS

	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
<i>Financing assets</i>		
Ijarah	346,913	221,726
Murabaha	61,231	37,583
	<u>408,144</u>	<u>259,309</u>
<i>Investing assets</i>		
Mudaraba	-	16,676
	<u>-</u>	<u>16,676</u>
Other	979	126
	<u>979</u>	<u>126</u>
Total income from financing and investing assets	<u><u>409,123</u></u>	<u><u>276,111</u></u>

4 GAIN ON INVESTMENTS

	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
Realised gain		
Gain on sale of investments carried at fair value through profit or loss	863	2,450
Gain on sale of non-trading investments	57,957	10,768
	<u>58,820</u>	<u>13,218</u>
Fair value gains (losses)		
Fair value loss on investments carried at fair value through profit or loss	-	(9,085)
	<u>-</u>	<u>(9,085)</u>
	<u><u>58,820</u></u>	<u><u>4,133</u></u>

5 PROFIT ON SALE OF PROPERTIES HELD FOR SALE

	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
Revenue from sale of properties held for sale	886,915	-
Cost of sale of properties held for sale	(753,666)	-
	<u>133,249</u>	<u>-</u>

6 OTHER INCOME

	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
Management fees	2,353	3,037
Guarantee fees	42	6,182
Dividend & sukuk income	16,379	20,372
Commission on sale of properties	4,000	-
Others	6,567	10,757
	<u>29,341</u>	<u>40,348</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

7 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
Staff costs	56,124	32,747
Rent	6,554	2,301
Advertisement and public relations services	22,849	10,668
Depreciation	4,479	2,560
Provision for impairment	21,033	20,275
Others	34,086	18,150
	<u>145,125</u>	<u>86,701</u>

8 DISTRIBUTION TO DEPOSITORS

The distribution of profit between the depositors and shareholders has been made in accordance with a basis ratified by the Fatwa and Sharia'a Supervisory Board.

9 BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share is calculated by dividing profit attributable to the shareholders for the year, net of Directors' fees by weighted average number of shares outstanding during the year as follows:

	<i>2007</i>	<i>2006</i>
Profit for the year, net of directors' fees (AED'000)	<u>301,212</u>	<u>129,423</u>
Weighted average number of shares	<u>1,500,000,000</u>	<u>1,500,000,000</u>
Earnings per share	<u>AED 0.20</u>	<u>AED 0.09</u>

No figure for diluted earnings per share has been presented because the Company has not issued any instruments which would have an impact on earnings per share when exercised.

10 CASH AND CASH EQUIVALENTS

	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
Cash in hand	46	39
Current accounts	160,797	54,498
Deposits with Islamic banks	335,000	213,691
Cash and deposits with banks	495,843	268,228
Less: Deposits maturing after 1 year	(35,000)	(35,000)
Cash and cash equivalents	<u>460,843</u>	<u>233,228</u>

Fixed deposit maturing after one year represents the amount deposited with a local bank under lien to the Central Bank of UAE in accordance with Central Bank regulations. Deposits with Islamic banks earn a return to be determined at the end of each accounting period.

11 FINANCING AND INVESTING ASSETS

	2007 AED'000	2006 AED'000
<i>Financing assets</i>		
Ijarah	2,997,046	2,529,316
Ijarah projects in progress	2,259,163	792,777
Commodities Murabaha - International	32,941	37,420
Commodities Murabaha - Local	858,082	672,357
Real estate Murabaha	59,022	42,438
Vehicle Murabaha	38,341	44,971
	<u>6,244,595</u>	<u>4,119,279</u>
Less:		
Provision for impairment	(24,800)	(24,800)
Total financing assets	<u>6,219,795</u>	<u>4,094,479</u>
<i>Investing assets:</i>		
Mudaraba	7,605	50,069
Total investing assets	<u>7,605</u>	<u>50,069</u>
Total financing and investing assets, net	<u>6,227,400</u>	<u>4,144,548</u>

Gross financing and investing assets by geographical area are as follows:

	2007 AED'000	2006 AED'000
Within U.A.E.	6,054,555	3,957,077
Outside U.A.E.	172,845	187,471
	<u>6,227,400</u>	<u>4,144,548</u>

The Ijarah assets include those offered as security for Sukuk payable (note 19) and certain investment deposits (note 20).

The movement in the provision for impairment is as follows:

	2007 AED'000	2006 AED'000
Balance at the beginning of year	24,800	23,182
Additions during the year	-	1,618
Balance at the end of year	<u>24,800</u>	<u>24,800</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

12 INVESTMENTS IN ASSOCIATES

	2007 AED'000	2006 AED'000
a) 37.5% share of Emaar Financial Services LLC - unquoted		
Balance at the beginning of the year	16,506	34,912
Increase in share capital	15,000	-
Share of profit for the year	8,908	10,449
Restatement for prior period profits	(1,126)	-
Dividend received	-	(28,855)
Balance at the end of the year	39,288	16,506
b) Company under formation (see note below)	115,846	2,214
	<u>155,134</u>	<u>18,720</u>

The following table summarises information in respect of the Company's investment in Emaar Financial Services LLC:

	2007 AED'000	2006 AED'000
Share of associate's balance sheet:		
Assets	191,739	105,981
Liabilities	(152,451)	(89,475)
Net assets	<u>39,288</u>	<u>16,506</u>
Share of associate's revenue and results:		
Revenue	<u>32,989</u>	<u>34,818</u>
Results	<u>8,908</u>	<u>10,449</u>

Note:

The Company has agreed to subscribe to 23.75% of the share capital of Amlak International, a company under formation in the Kingdom of Saudi Arabia. The Company has paid AED 115,846 thousand towards 50% of its total commitment. Commitment for uncalled capital is disclosed in note 25.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

13 OTHER INVESTMENTS

	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
Quoted available-for-sale investments:		
Debts	-	30,135
Funds	65,388	73,807
Equity	105,400	191,741
	<u>170,788</u>	<u>295,683</u>
Unquoted available-for-sale investments:		
Debts	-	6,610
Funds	95,337	61,324
Equity	144,614	179,907
	<u>239,951</u>	<u>247,841</u>
Quoted equity investments at fair value through profit or loss	-	1,675
Total	410,739	545,199
Provision for impairment of available-for-sale investments	(39,690)	(18,657)
	<u><u>371,049</u></u>	<u><u>526,542</u></u>

- (i) Unquoted available-for-sale investments are carried at cost less provision for impairment, as the fair value cannot be reliably measured.
- (ii) The movement in the provision for impairment of available-for-sale investments is as follows:

	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
Balance at the beginning of year	18,657	-
Additions during the year	21,033	18,657
Balance at the end of year	<u><u>39,690</u></u>	<u><u>18,657</u></u>

14 OTHER ASSETS

	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
Advances for property under development	83,549	27,963
Advances for purchase of properties held for sale	54,171	-
Prepayments	5,101	7,408
Income receivable	13,867	23,805
Others	8,497	19,966
	<u><u>165,185</u></u>	<u><u>79,142</u></u>

Advances for property under development represent progress payments for the purchase of certain apartments for resale. The total contracted cost of the apartments is AED 186,799 thousand (2006: AED 34,953 thousand).

15 FURNITURE, FIXTURES AND OFFICE EQUIPMENT

	<i>Furniture and fixtures AED '000</i>	<i>Computers and office equipment AED '000</i>	<i>Motor vehicles AED '000</i>	<i>Total AED '000</i>
Cost				
At 1 January 2007	9,533	8,723	185	18,441
Additions	2,436	11,270	374	14,080
Disposals	-	-	(99)	(99)
At 31 December 2007	<u>11,969</u>	<u>19,993</u>	<u>460</u>	<u>32,422</u>
Depreciation				
At 1 January 2007	3,468	5,787	122	9,377
Depreciation charge for the year	1,317	3,073	89	4,479
Disposals	-	-	(99)	(99)
At 31 December 2007	<u>4,785</u>	<u>8,860</u>	<u>112</u>	<u>13,757</u>
Net carrying amount				
At 31 December 2007	<u>7,184</u>	<u>11,133</u>	<u>348</u>	<u>18,665</u>

	<i>Furniture and fixtures AED '000</i>	<i>Computers and office equipment AED '000</i>	<i>Motor vehicles AED '000</i>	<i>Total AED '000</i>
Cost				
At 1 January 2006	6,706	6,880	192	13,778
Additions	2,827	1,843	41	4,711
Disposals	-	-	(48)	(48)
At 31 December 2006	<u>9,533</u>	<u>8,723</u>	<u>185</u>	<u>18,441</u>
Depreciation				
At 1 January 2006	2,372	4,364	129	6,865
Depreciation charge for the year	1,096	1,423	41	2,560
Disposals	-	-	(48)	(48)
At 31 December 2006	<u>3,468</u>	<u>5,787</u>	<u>122</u>	<u>9,377</u>
Net carrying amount				
At 31 December 2006	<u>6,065</u>	<u>2,936</u>	<u>63</u>	<u>9,064</u>

16 SHARE CAPITAL

	<i>2007 AED '000</i>	<i>2006 AED '000</i>
Authorised, issued and fully paid		
1,500,000,000 shares of AED 1 each	<u>1,500,000</u>	<u>1,500,000</u>
(2006: 1,500,000,000 shares of AED 1 each)		

17 RESERVES

In accordance with its Articles of Association, the Company allocates 10% of the annual net profit to the statutory reserve and another 10% to the general reserve. The transfers to statutory reserve may be suspended when the reserve reaches 50% of the paid-up capital. Transfers to general reserve may also be suspended when the reserve reaches 50% of paid-up capital or by approval of the ordinary general assembly based upon the recommendation of the Board of Directors.

The special reserve is created at 1% of investing and financing assets in accordance with the recommendation of Central Bank of UAE and is not available for distribution.

The foreign currency translation reserve is used to record exchange difference arising from translation of the financial statements of foreign subsidiaries.

18 PROPOSED DIVIDEND

A cash dividend of AED 0.10 per share is proposed by the directors for the approval of the shareholders in the Annual General Meeting.

19 SUKUK PAYABLE

On 18 July 2005, the Company issued five year sukuk repayable with profit over six semi annual installments starting from 18 January 2008. The sukuk was issued at par by way of a public offering and is listed on Dubai Financial Market. The sukuk is secured by certain financing and investing assets located in Dubai with carrying value equal to the outstanding sukuk payable (note 11).

20 INVESTMENT DEPOSITS

	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
a) Deposits through Amlak Real Estate Fund		
Balance at the beginning of the year	254,447	270,577
Accrued profit	15,599	17,128
Repayments during the year	(34,304)	(33,258)
Balance at the end of the year	235,742	254,447
b) Other Mudaraba and Wakala deposits	5,029,801	2,254,130
	<u>5,265,543</u>	<u>2,508,577</u>

The Company collected investment deposits of USD 75 million payable within 3 years with minimum expected profit rate of 6% through a special purpose real estate fund. These deposits are secured by earmarked Ijarah assets included in financing and investing assets (note 11). Other Mudaraba and wakala deposits are unsecured and will predominantly mature within one year.

Mudaraba arrangements represent funds for investment in the Company's (Mudareb's) ongoing real estate investment activities (the Project) on a mudaraba basis. Rab Al Mals agree to reward the Mudareb for profits earned by it in excess of minimum return based on EIBOR determined at inception as an incentive/bonus for profitable, efficient and safe deployment of the Rab Al Mal's capital. All these arrangements are short term.

Wakala arrangements represent investment amount received by the Company (Wakeel) from a customer (Muwakkil) to invest in the investment transaction expected to generate profit for the Muwakkil based on EIBOR. Any profit exceeding the expected profit after deduction of wakeel fee is allowed to be kept by the Company as an incentive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21 EMPLOYEES' END OF SERVICE BENEFITS

	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
Movements in the provision recognized in the balance sheet are as follows:		
Provision as at the beginning of the year	1,158	1,049
Provided during the year	1,072	767
End of service benefits paid	(405)	(658)
Provision as at the end of the year	<u>1,825</u>	<u>1,158</u>

An actuarial valuation has not been performed as the net impact of discount rates and future increases in benefits is not likely to be material.

22 OTHER LIABILITIES

	<i>2007</i> <i>AED'000</i>	<i>2006</i> <i>AED'000</i>
Advances received against property under development	1,479	6,723
Accrued profit on sukuk	22,292	22,769
Accrued expenses	27,863	8,367
Other payables	42,875	18,968
	<u>94,509</u>	<u>56,827</u>

23 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the parent company, and entities controlled, jointly controlled or significantly influenced by such parties. The pricing policies and terms of these transactions are approved by the parent company's management.

Balances with related parties included in the balance sheet are as follows:

	<i>Associated companies AED'000</i>	<i>Major shareholders AED'000</i>	<i>Directors and senior management AED'000</i>	<i>Other related parties AED'000</i>	<i>2007 Total AED'000</i>	<i>2006 Total AED'000</i>
Cash and deposits with banks	-	-	-	-	-	110,091
Financing and investing assets	-	-	43,378	17,964	61,342	23,806
Investment deposits	-	277,281	-	703,449	980,730	509,734
Other assets	3,008	-	-	19,262	22,270	31,476
Other liabilities	-	8,791	-	-	8,791	8,776

Outstanding balances at the year-end arise in the normal course of business. For the year ended 31 December 2007, the Company has not recorded any impairment of amounts owed by related parties (2006: nil).

23 RELATED PARTY TRANSACTIONS (continued)

Transactions with related parties included are as follows:

	<i>Associated companies AED'000</i>	<i>Major shareholders AED'000</i>	<i>Directors and senior management AED'000</i>	<i>Other related parties AED'000</i>	<i>2007 Total AED'000</i>	<i>2006 Total AED'000</i>
Income from financing and investing assets	-	-	889	1,348	2,237	337
Income from investment deposits	-	-	-	6,679	6,679	15,073
Guarantee commission	-	-	-	-	-	6,181
Distribution to depositors	-	21,430	-	3,864	25,294	37,085
Purchase of land	-	-	-	1,816,765	1,816,765	-

Compensation of key management personnel

In addition to the Directors' fees of AED 1.65 million (2006: AED 1 million), the compensation paid to key management personnel of the Company is as follows:

	<i>2007 AED'000</i>	<i>2006 AED'000</i>
Salaries and other benefits	10,800	5,158
Employee terminal benefits	357	232
	<u>11,157</u>	<u>5,390</u>

24 SEGMENTAL INFORMATION**Primary segment information**

For operational and management reporting purposes, the Company is organised in one major business segment of Islamic financing and investing activities.

Secondary segment information

For operational and management reporting purposes, the Company is organised in one geographical segment, Middle East. Consequently, no secondary segment information is required to be provided.

25 COMMITMENTS AND CONTINGENCIES**Commitments**

		<i>2007 AED'000</i>	<i>2006 AED'000</i>
Irrevocable commitments to extend credit	25.1	1,614,998	1,427,774
Purchase of properties for resale	25.2	2,996,563	6,991
Contribution to share capital	25.3	296,363	408,997
		<u>4,907,924</u>	<u>1,843,762</u>

25 COMMITMENTS AND CONTINGENCIES (continued)

- 25.1 Credit-related commitments include commitments to extend facilities designed to meet the requirements of the Company'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.
- 25.2 At the year end, the Company was committed to purchase certain properties for resale.
- 25.3 The Company has commitments on account of uncalled capital of an associate and other investees. The Company has to pay as and when calls are made by the investee companies.

Contingencies

The Company has issued guarantees on behalf of an associate amounting to AED 3,460 thousand (2006: AED 414,137 thousand).

26 RISK MANAGEMENT

Risk is inherent in the Company'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 Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, market risk, currency risk, profit rate risk, equity price risk and prepayment risk. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Company's strategic planning process.

The major risks to which the Company is exposed in conducting its business and operations, and the means and organisational structure it employs in seeking to manage them strategically in building shareholder value are outlined below.

Risk management structure

The Board of Directors ("Board") is responsible for the continuous review and approval of the Company's Risk Policies and Medium Term and Annual Risk Strategy, within which business strategy, objectives and targets are formulated. The Board reviews the Company's Risk Profile to ensure that it is within the Company's Risk Policies and appetite parameters. It delegates authority to senior management to conduct day-to-day business within the prescribed policy and strategy parameters, whilst ensuring that processes and controls are adequate to manage the Company's Risk Policies and Strategy.

Executive Management is responsible for implementing the Company's Risk Strategy and Policy guidelines as set by the Board including the identification and evaluation on a continuous basis of all significant risks to the business and the design and implementation of appropriate internal controls to minimise them. This is done through the following senior management committees:

The Audit Committee is responsible to the Board for ensuring that the Company maintains an effective system of financial, accounting and risk management controls and for monitoring compliance with the requirements of the regulatory authorities.

The Company Sharia Board is responsible to review the operational, financing and investing activities of the Company ensuring their alignment and compliance with The Quran and The Sunna'h. Being a supervisory board they are also required to audit the business activities undertaken and present an independent report to the shareholders. Fatwas and ongoing directives issued by Sharia Board are coordinated and implemented through an internal Sharia compliance committee. The committee seeks guidance from the Sharia Board for the implementation of directives.

26 RISK MANAGEMENT (continued)

Risk management structure (continued)

The Credit Committee is responsible for portfolio evaluation, credit decisions, credit policy and procedure formulation, country risk and counterparty analysis, approval/review and exposure reporting, control and risk-related regulatory compliance, dealing with impaired assets and portfolio management. It is also responsible for identifying market and operational risks arising from the Company's activities, recommending to the relevant committees appropriate policies and procedures for managing exposure to such risks and establishing the systems necessary to implement effective controls.

The Credit Committee actively liaises with the Central Bank for black listed customers. Moreover, the Company has introduced Risk Adjusted Pricing Model for lending following accredited Credit and Risk evaluation standards. The Credit Committee actively pursues the quality of the portfolio on a monthly basis using internationally acknowledged credit scoring system.

The Asset and Liability Committee (ALCO) is chiefly responsible for defining long-term strategic plans and short-term tactical initiatives for directing asset and liability allocation prudently for the achievement of the Company's strategic goals. ALCO monitors the Company's liquidity and market risks and the Company's risk profile in the context of economic developments and market fluctuations, to ensure that the Company's ongoing activities are compatible with the risk/reward guidelines approved by the Board.

The Management Committee is responsible for name clearance and review of all investment related deals from an operational, fiduciary and reputation risk perspective, in line with the risk/reward guidelines approved by the Board. The Management Committee is also responsible to ensure compliance with directives issued by the Sharia Board including changes in lending contracts, product parameters etc.

The Company's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Company also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

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

For all levels throughout the Company, 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.

Excessive risk concentration

Concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration indicates the relative sensitivity of the Company's performance to developments affecting a particular nationality, industry or geographical location.

In order to avoid excessive concentration of risk, the Company's policies and procedures include specific guidelines to focus on country and counter party limits and maintaining a diversified portfolio. Identified concentration of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Company. Such risk stems mainly from day to day Islamic financing activities undertaken by the Company. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. For details of composition of Islamic financing assets refer note 11.

26 RISK MANAGEMENT (continued)

The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties and continually assessing the creditworthiness of counter parties. The Company has built and maintains a sound receivable portfolio in terms of a well defined Credit Policy approved by the Board of Directors. Its credit evaluation system comprises of well-designed credit appraisal, sanctioning and review procedures for the purpose of emphasizing prudence in its financing activities and ensuring quality of asset portfolio. Special attention is paid to the management of non-performing financing assets.

The Company constantly monitors overall credit exposure and takes analytical and systematic approaches to its credit structure categorized by individuals, group and industry and consequently, the credit portfolio is well diversified sectorally and by nationalities. Overall credit risk is considered to be minimal with no significant concentration.

The Company encourages Ijara financing, as evident from the portfolio composition, which entails the ownership of the property with the Company till clearance of all monies due. This results in full collateralisation of amounts financed.

The Company's customers are mainly based in the United Arab Emirates. At 31 December 2007, there was no significant concentration of credit risk.

QUANTITATIVE INFORMATION**Maximum exposure to credit risk without taking account of any collateral and other credit enhancements**

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross.

	<i>Gross maximum exposure 2007 AED'000</i>	<i>Gross maximum exposure 2006 AED'000</i>
Cash and deposits with banks	495,797	268,189
Financing and investing assets	6,227,400	4,144,548
Other investments	371,049	526,542
Investment in associates	155,134	18,720
Other assets (other than prepayment)	160,084	71,734
Total (A)	<u>7,409,464</u>	<u>5,029,733</u>
Irrevocable commitments to extend credit	1,614,998	1,427,774
Total (B)	<u>1,614,998</u>	<u>1,427,774</u>
Total credit risk exposure (A + B)	<u>9,024,462</u>	<u>6,457,507</u>

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

The credit quality of financial assets is managed by the Company using internal credit ratings. The table below shows the credit quality by class of financial asset, based on the Company's credit rating system.

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Financial assets

	Carrying amount	Neither impaired nor past due on reporting date			Past due but not impaired on reporting date				Individually impaired on reporting date		
		Low/fair Risk	Watch list	Re- negotiated terms	<30	30-60	61-90 days	>90 days	Gross amount	Allowance for impairment	Carrying amount
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Deposits with banks	495,797	495,797	-	-	-	-	-	-	-	-	-
Financing and investing assets	6,227,400	4,613,327	-	5,773	1,153,000	367,000	39,000	39,000	35,100	(24,800)	10,300
Other investments	371,049	357,387	-	-	-	-	-	-	53,352	(39,690)	13,662
Investment in associates	155,134	155,134	-	-	-	-	-	-	-	-	-
Other assets (other than prepayment)	160,084	160,084	-	-	-	-	-	-	-	-	-
	<u>7,409,464</u>	<u>5,781,729</u>	<u>-</u>	<u>5,773</u>	<u>1,153,000</u>	<u>367,000</u>	<u>39,000</u>	<u>39,000</u>	<u>88,452</u>	<u>(64,490)</u>	<u>23,962</u>

31 December 2006

Financial assets

	Carrying amount	Neither impaired nor past due on reporting date			Past due but not impaired on reporting date				Individually impaired on reporting date		
		Low/fair Risk	Watch list	Re- negotiated terms	<30	30-60	61-90 days	>90 days	Gross amount	Allowance for impairment	Carrying amount
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Deposits with banks	268,189	268,189	-	-	-	-	-	-	-	-	-
Financing and investing assets	4,144,548	2,297,428	-	-	930,000	682,000	125,000	100,000	34,920	(24,800)	10,120
Other investments	526,542	491,847	-	-	-	-	-	-	53,352	(18,657)	34,695
Investment in associates	18,720	18,720	-	-	-	-	-	-	-	-	-
Other assets (other than prepayment)	71,734	71,734	-	-	-	-	-	-	-	-	-
	<u>5,029,733</u>	<u>3,147,918</u>	<u>-</u>	<u>-</u>	<u>930,000</u>	<u>682,000</u>	<u>125,000</u>	<u>100,000</u>	<u>88,272</u>	<u>(43,457)</u>	<u>44,815</u>

26 RISK MANAGEMENT (continued)**Credit risk (continued)**

It is the Company's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Company's rating policy. The attributable risk ratings are assessed and updated regularly.

Collateral and other credit enhancements

The finance provided by the Company is completely asset backed in accordance with the principles of Shariah. Properties are funded based on "Company's Appraised Value". In the case of new properties, the appraised value is similar to the developers' per square footage rate further assessed by independent valuation and internal assessment. However, in some cases the Company might have lower rates than the developers based on the Company's view of the property. In case of older properties the appraised value is released by the Credit Department. These valuations are based on the valuation report from valuers, whenever required and the property prices witnessed in Amlak's past funding transactions.

Property insurance is mandatory and the property is insured against all normal risks for the value stated in the sale agreement, or the valuation amount given by the surveyor, as the case maybe. The insured value is maintained at the original property value through the life of the finance.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Company has established risk management policies and limits within which exposure to market risk is monitored, measured and controlled with strategic oversight exercised by the Board and ALCO. These units are responsible for developing and implementing 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 fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

	<i>% Change in Currency rate In AED</i>	<i>2007</i>		<i>2006</i>	
		<i>Effect on profit AED '000</i>	<i>Effect on equity AED '000</i>	<i>Effect on profit AED '000</i>	<i>Effect on equity AED '000</i>
Currency					
United States Dollar (USD)	+5%	(39,762)	11,430	(40,313)	13,387
Egyptian Pound (LEY)	+5%	1,520	-	-	-
Saudi Riyals (SAR)	+5%	-	5,787	-	108

26 RISK MANAGEMENT (continued)**Profit rate risk**

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. In the Company's financial statements, mainly two line items can lead to such exposure i.e. Islamic financing assets and financing obligations, as shown on the assets and liability sides respectively. The profit rate risk for the Company is minimal in the short term period.

The profit rate for financing assets is a composition of EIBOR and internal spread which can be expected to fluctuate frequently based on EIBOR movement. The Company reviews the profit rate on a monthly basis during its ALCO meeting and, if required, recommends rate change based on market conditions and competitiveness.

The financing obligations, being short term, are contractually fixed rate contracts as determined on contract initiation. Any rate change has no impact for already entered arrangements.

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, on the Company's income statement.

The sensitivity of the income statement is the effect of the assumed changes in profit rates on the net profit earned for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2007. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets.

	2007 AED '000	2006 AED '000
Effect of a $\pm$ 50 bps change in EIBOR/LIBOR	$\pm$ 3,791	$\pm$ 1,646
Effect of a $\pm$ 100 bps change in EIBOR	$\pm$ 7,582	$\pm$ 3,292

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 non-trading equity price risk exposure arises from the Company's investment portfolio.

The effect on equity as a result of a change in the fair value of equity instruments held as available-for-sale at 31 December 2007 due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	% Change in equity price	2007 AED '000	2006 AED '000
Market Indices			
Dubai Financial Markets	+5	3,526	6,212
Abu Dhabi Securities Markets	+5	-	558
Bahrain Stock Exchange	+5	1,021	1,803
Others	+5	723	1,674

26 RISK MANAGEMENT (continued)

Prepayment risk

Prepayment risk is the risk that the Company will incur a financial loss because its counterparties repay earlier or later than expected.

The Company does not have any significant prepayments risk as the amount recovered in case of early settlement is more than the fair value of the asset on settlement date, by adding a settlement fees to recover amount on time and to avoid any delays. The collection team, supervised by Credit Committee, monitors the customer receivable position on a daily basis.

Liquidity risk

The table below summarises the maturity profile of the Company's assets, liabilities and off balance sheet items based on contractual undiscounted repayment obligations. Repayments which are subjected to notice are treated as if notice were to be given immediately.

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26 RISK MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2007

		Up to 1 year			Total up to 1 year	1 year to 5 years	Over 5 years	Items with no maturity	Total
	Profit rate %	Less than 3 months AED'000	3 months to 6 months AED'000	6 months to 1 year AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets									
Cash and deposits with banks	5-6%	460,843	35,000	-	495,843	-	-	-	495,843
Properties held for sale	-	2,030,335	-	-	2,030,335	-	-	-	2,030,335
Financing and investing assets	7-11%	87,033	233,651	428,600	749,284	2,659,123	2,818,993	-	6,227,400
Investment in associate	-	-	-	-	-	-	-	155,134	155,134
Other investments	4-9%	-	2,661	3,672	6,333	66,026	31,933	266,757	371,049
Other assets	-	165,185	-	-	165,185	-	-	-	165,185
Furniture, fixture and equipment	-	-	-	-	-	-	-	18,665	18,665
		<u>2,743,396</u>	<u>271,312</u>	<u>432,272</u>	<u>3,446,980</u>	<u>2,725,149</u>	<u>2,850,926</u>	<u>440,556</u>	<u>9,463,611</u>
Liabilities and equity									
Sukuk payable	5-7%	122,333	-	122,333	244,666	489,734	-	-	734,400
Investment deposits	3-6%	4,117,465	699,100	200,000	5,016,565	248,978	-	-	5,265,543
Payables for property held for sale	-	68,113	380,253	380,253	828,619	380,253	-	-	1,208,872
Accrued Zakat	-	-	-	14,793	14,793	-	-	-	14,793
Employees' end of service benefits	-	-	-	-	-	-	1,825	-	1,825
Other liabilities	-	94,509	-	-	94,509	-	-	-	94,509
Equity	-	-	-	-	-	-	-	2,143,669	2,143,669
		<u>4,402,420</u>	<u>1,079,353</u>	<u>717,379</u>	<u>6,199,152</u>	<u>1,118,965</u>	<u>1,825</u>	<u>2,143,669</u>	<u>9,463,611</u>
OFF BALANCE SHEET ITEMS									
Commitments		<u>1,198,152</u>	<u>1,173,138</u>	<u>903,945</u>	<u>3,275,235</u>	<u>1,632,688</u>	<u>-</u>	<u>-</u>	<u>4,907,923</u>
Net liquidity gap		<u>(2,857,176)</u>	<u>(1,981,179)</u>	<u>(1,189,052)</u>	<u>(6,027,407)</u>	<u>(26,504)</u>	<u>2,849,101</u>	<u>(1,703,113)</u>	

Amlak Finance PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

26 RISK MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2006

		Up to 1 year			Total				
	Profit rate %	Less than 3 months AED'000	3 months to 6 months AED'000	6 months to 1 year AED'000	up to 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	Items with no maturity AED'000	Total AED'000
Assets									
Cash and deposits with banks	5-6%	123,137	-	110,091	233,228	35,000	-	-	268,228
Financing and investing assets	6-11%	214,973	138,881	438,226	792,080	1,418,159	1,934,309	-	4,144,548
Investment in associate	-	-	-	-	-	-	-	18,720	18,720
Other investments	4-9%	-	-	-	-	86,580	30,571	409,391	526,542
Other assets	-	79,142	-	-	79,142	-	-	-	79,142
Furniture, fixture and equipment	-	-	-	-	-	-	-	9,064	9,064
		417,252	138,881	548,317	1,104,450	1,539,739	1,964,880	437,175	5,046,244
Liabilities and equity									
Sukuk payable	6-7%	-	-	-	-	697,680	-	-	697,680
Investment deposits	3-7%	1,015,016	493,194	519,000	2,027,210	100,000	381,367	-	2,508,577
Accrued Zakat	-	13,238	-	-	13,238	-	-	-	13,238
Employees' end of service benefits	-	1,158	-	-	1,158	-	-	-	1,158
Other liabilities	-	56,827	-	-	56,827	-	-	-	56,827
Equity	-	-	-	-	-	-	-	1,768,764	1,768,764
		1,086,239	493,194	519,000	2,098,433	797,680	381,367	1,768,764	5,046,244
OFF BALANCE SHEET ITEMS									
Commitments	-	-	1,843,762	-	1,843,762	-	-	-	1,843,762
		-	1,843,762	-	1,843,762	-	-	-	1,843,762
Net liquidity gap									
		(668,987)	(2,198,075)	29,317	(2,837,745)	742,059	1,583,513	(1,331,589)	

26 RISK MANAGEMENT (continued)**Liquidity risk (continued)**

Based on the Company's investment deposit retention history, the Company expects that many of its customers will roll over the investment deposits on maturity dates.

Operational risk

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

27 CAPITAL ADEQUACY

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements and that the Company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Company 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 Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

The risk asset ratio calculation, calculated for submission to the Central bank, is as follows:

	2007 AED'000	2006 AED'000
Tier I Capital		
Issued capital	1,500,000	1,500,000
Legal and statutory reserves	120,210	59,638
Opening retained earnings	215,950	119,607
	<u>1,836,160</u>	<u>1,679,245</u>
Tier II Capital		
Cumulative changes in fair values	78,678	(6,824)
Deduction		
Investment in associate companies	(155,134)	(18,720)
	<u>1,759,704</u>	<u>1,653,701</u>
Total regulatory capital		
	<u>1,759,704</u>	<u>1,653,701</u>
RISK WEIGHTED EXPOSURE		
On-balances sheet	9,308,431	5,027,485
Off-balances sheet	1,660,236	415,988
	<u>10,968,667</u>	<u>5,443,473</u>
Total risk weighted assets		
	<u>10,968,667</u>	<u>5,443,473</u>
Total regulatory capital expressed as a percentage of total risk weighted assets	<u>16.04%</u>	<u>30.38%</u>

28 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities. Financial assets of the Company include cash and deposits with banks, financing and investing assets, investments and other assets. Financial liabilities of the Company include bank overdraft, sukuk payable, investment deposits, accounts payable and due to related parties.

The fair values of financial instruments, with the exception of certain available-for-sale investments carried at cost, are not materially different from their carrying values.

29 COMPARATIVE INFORMATION

Provision for impairment of unquoted available-for-sale investments amounting to AED 18,657 thousand as of 31 December 2006 was inadvertently classified under financing and investing assets, instead of other investment. This has now been correctly classified.