

Amlak Finance PJSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2008

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 (the 'Company') and its subsidiaries (together the 'Group'), which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement 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 Commercial Companies Law of 1984 (as amended). 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 Group as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matters

Without qualifying our opinion, we draw your attention to the following matters:

- (a) As stated in note 1, trading in the Company's shares on the Dubai Financial Market has been suspended following the announcement that the Company is in discussion with Tamweel PJSC and another entity that may lead to the establishment of a merged entity. The Board of Directors, along with the Steering Committee set up by the UAE Ministry of Finance and Industry in connection with the proposed merger are evaluating various options to secure sustainable funding for the Group in order to enable it to continue to meet its commitments.
- (b) In accordance with the Group's accounting policy, the Group carries properties and property rights held for trading, at the lower of cost and net realisable value. Net realisable value signifies the estimated selling price in the ordinary course of the business less estimated costs necessary to be incurred on disposal. At 31 December, 2008 the Group's financial statements include properties and property rights held for trading amounting to AED 2,888,296,000 and AED 1,053,048,000 respectively. However, in view of the fact that only limited transactions in distressed situations are currently taking place in the market, it is not possible to determine the fair value of such assets at the balance sheet date with reasonable accuracy. Accordingly, such assets are being carried at the cost as of 31 December 2008.
- (c) As stated in note 14, property rights include AED 229 million in respect of a building purchased by the Group in association with two other parties. The total cost of the building is AED 1,656 million. The Group's share is 34%, while the two other parties have 33% each. As at 31 of December 2008, the syndication has collectively paid 40% of the acquisition price. The transaction has been recorded in the books of the Group up to the amount of its shareholding in the investment.

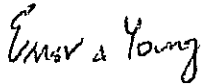
One of the parties to the agreement has expressed its intention to exit the investment and assign its entire share of investment amounting to AED 546 million of which it has already paid AED 216 million to the Group. The party is also seeking to offset this payment against amount owed to the Group for an unrelated transaction. According to the Group's management, there is no legal right to offset the balance and the Group's management has not accepted the proposal as management is of the opinion that the party cannot exit the investment. Negotiations are going on in this respect with the party.

Furthermore, the Group has not paid the remaining purchase consideration to the seller of the building. The Group is currently in the process of renegotiating the terms of payment with the seller.

- (d) As stated in notes 13 and 14, the Group has not paid amounts totaling AED 380 million and AED 450 million in respect of properties and property rights held for trading respectively, which had become due in accordance with initial sale and purchase agreement. Negotiations are in progress to agree new payment plans in this respect. Management believes that the non payment will not have any adverse impact on the financial statements of the Group.

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 Commercial Companies Law of 1984 (as amended) 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 Commercial Companies Law of 1984 (as amended) 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.

A handwritten signature in black ink, appearing to read 'Farrukh Seer'.

Signed by
Farrukh Seer
Partner
Registration No. 491

31 March 2009

Dubai, United Arab Emirates

Amlak Finance PJSC and its Subsidiaries

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	<i>Notes</i>	<i>2008 AED'000</i>	<i>2007 AED'000</i>
Income from financing and investing assets	4	806,145	409,123
Processing and other fees	5	105,025	55,135
Gain on investments	6	24,511	58,820
Profit on sale of properties held for trading	13	52,491	133,249
Profit on sale of property rights held for trading	7	192,125	-
Dividend income		5,419	16,379
Income on deposits		5,956	20,532
Other income	8	14,586	12,962
Operating income		1,206,258	706,200
Operating expenses	9	(446,003)	(145,125)
Share of (loss) profit of associates	17	(34,499)	7,782
Profit before distributions to depositors		725,756	568,857
Distribution to depositors	10	(525,898)	(265,995)
PROFIT FOR THE YEAR		199,858	302,862
Attributable to:			
Equity holders of the parent		240,245	302,862
Minority interests		(40,387)	-
		199,858	302,862
Earnings per share			
Attributable to equity holders of the parent			
Basic and diluted earnings per share (UAE Dirhams)	11	0.16	0.20

The attached notes 1 to 37 form part of these consolidated financial statements.

Amlak Finance PJSC and its Subsidiaries

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	2008 AED'000	2007 AED'000
ASSETS			
Cash and balances with banks	12	613,388	495,843
Properties held for trading	13	2,888,296	2,030,335
Property rights held for trading	14	1,146,754	137,720
Financing and investing assets	15	10,060,711	6,227,400
Trading securities		11,067	-
Available-for-sale investments	16	117,639	371,049
Investments in associates	17	413,777	155,134
Other assets	18	571,333	27,465
Furniture, fixtures and office equipment	19	23,498	18,665
TOTAL ASSETS		15,846,463	9,463,611
LIABILITIES AND EQUITY			
Liabilities			
Sukuk payable	20	489,562	734,400
Investment deposits	21	11,445,043	5,265,543
Payable for properties held for trading	13	951,929	1,208,872
Other long term financing	22	177,508	-
Accrued Zakat		17,399	14,793
Employees' end of service benefits	23	3,623	1,825
Other liabilities	24	700,936	94,509
Total liabilities		13,786,000	7,319,942
Equity			
Equity attributable to equity holders of the parent			
Share capital	25	1,500,000	1,500,000
Employee share scheme	26	(93,048)	-
Statutory reserve	27	88,675	60,105
General reserve	28	88,675	60,105
Special reserve	29	99,265	62,274
Cumulative changes in fair value of securities		2,316	78,678
Foreign currency translation reserve	30	(14,581)	824
Retained earnings		359,974	231,683
Proposed dividend	31	-	150,000
Minority interests		2,031,276	2,143,669
Total equity		2,060,463	2,143,669
TOTAL LIABILITIES AND EQUITY		15,846,463	9,463,611

Approved by the Board of Directors on MARCH 31, 2009 and signed on its behalf by:

Chairman

Director

Chief Executive Officer

The attached notes 1 to 37 form part of these consolidated financial statements.

Amlak Finance PJSC and its Subsidiaries
CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2008

	Note	2008 AED '000	2007 AED '000
OPERATING ACTIVITIES			
Profit for the year			
Adjustments for:			
Depreciation		199,858	302,862
Share of loss (profit) of associates		8,721	4,479
Impairment of available-for-investments		34,499	(7,782)
Impairment of financing and investing assets		34,091	21,033
Impairment of investment in associate		101,821	-
Profit on sale of properties held for trading		14,448	-
Gain on sale of available-for-sale investments		(52,491)	-
Loss on sale of trading securities		(49,205)	(58,820)
Fair value of trading securities		1,143	-
Profit on sale of furniture, fixtures and office equipment		22,403	-
Gain on sale of subsidiary		(21)	-
Provision for employees' end of service benefits		(11,784)	-
Dividend and sukuk income		2,174	-
		(5,419)	-
Working capital changes:		300,238	261,772
Financing and investing assets			
Other assets		(3,935,132)	(2,082,852)
Investment deposits		(318,637)	(86,043)
Other liabilities		6,179,500	2,756,966
Payable for properties held for trading		455,474	36,699
Accrued Zakat		(256,943)	-
		-	(11,078)
Employees' end of service benefits paid		2,424,500	875,464
Net cash from operating activities		(680)	-
		2,423,820	875,464
INVESTING ACTIVITIES			
Investments in associates			
Purchase of available-for-sale investments		(397,620)	(128,632)
Proceeds from sale of available-for-sale investments		(175,328)	(377,293)
Proceeds on sale of trading securities		367,490	656,075
Purchase of properties held for trading		4,016	-
Proceeds on disposal of properties held for trading		(2,006,982)	(821,463)
Properties rights held for trading		1,201,512	-
Proceeds from disposal of subsidiary		(1,009,034)	-
Payment of zakat		67,784	-
Purchase of furniture, fixtures and office equipment		(11,749)	-
Dividend paid		(10,603)	(14,080)
Dividend and sukuk income received		(141,623)	-
		5,419	-
Net cash used in investing activities		(2,106,718)	(685,393)
FINANCING ACTIVITIES			
Payment of Sukuk			
Long term financing		(244,838)	-
Shares purchased for employees' share scheme		119,698	-
Issue of Sukuk		(93,048)	-
Net cash (used) from financing activity		-	36,720
		(218,188)	36,720
INCREASE IN CASH AND CASH EQUIVALENTS			
Foreign exchange translation reserve		98,914	226,791
Cash and cash equivalents at the beginning of the year		(15,405)	824
		460,843	233,228
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	12	544,352	460,843

The attached notes 1 to 37 form part of these consolidated financial statements.

Amlak Finance PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

Attributable to the shareholders of the parent company											
Share capital AED '000	Employee share scheme 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	Minority interest AED '000	Total AED '000
1,500,000	-	60,105	60,105	62,274	78,678	824	231,683	150,000	2,143,669	-	2,143,669
Realised loss on available-for-sale investments reclassified to income statement on disposal	-	-	-	-	(23,992)	-	-	-	(23,992)	-	(23,992)
Net unrealised loss on available-for-sale investments	-	-	-	-	(52,370)	-	-	-	(52,370)	-	(52,370)
Foreign currency translation	-	-	-	-	-	(15,405)	-	-	(15,405)	-	(15,405)
Total income and expense for the year recognised directly in equity	-	-	-	-	(76,362)	(15,405)	-	-	(91,767)	-	(91,767)
Profit for the year	-	-	-	-	-	-	240,245	-	240,245	(40,387)	199,858
Total income and expense for the year	-	-	-	-	(76,362)	(15,405)	240,245	-	148,478	(40,387)	108,091
Dividend paid	-	-	-	-	-	-	-	(150,000)	(150,000)	-	(150,000)
Transfer to statutory reserve	-	-	28,570	-	-	-	(28,570)	-	-	-	-
Transfer to general reserve	-	-	-	28,570	-	-	(28,570)	-	-	-	-
Transfer to special reserve	-	-	-	-	36,991	-	(36,991)	-	-	-	-
Purchase of shares for employees	-	(93,048)	-	-	-	-	-	-	-	-	-
Minority interest movement	-	-	-	-	-	-	-	-	(93,048)	-	(93,048)
Zakat	-	-	-	-	-	-	(1,818)	-	(1,818)	69,574	67,756
Board of Directors' fees	-	-	-	-	-	-	(14,355)	-	(14,355)	-	(14,355)
	-	-	-	-	-	-	(1,650)	-	(1,650)	-	(1,650)
Balance at 31 December 2008	1,500,000	(93,048)	88,675	88,675	99,265	2,316	359,974	-	2,031,276	29,187	2,060,463

The attached notes 1 to 37 form part of these consolidated financial statements.

Amlak Finance PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	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 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
Total income and expense 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 37 form part of these consolidated 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.

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 Ijarah, Murabaha, Mudaraba and Musharaka. The activities of the Company and its subsidiaries (together the 'Group') are conducted in accordance with Islamic Sharia'a, which prohibits usury, and within the provisions of its Articles and Memorandum of Association. In 2007, the Company obtained a license from the Real Estate Regulatory Authority, Dubai, United Arab Emirates to start Escrow Management service operations. And consequently, the Company started the operations during the current year.

The Company's shares are listed on Dubai Financial Markets. Trading in the Company's shares on the Dubai Financial Market was suspended following the announcement that the Company is in discussion with Tamweel PJSC and another entity that may lead to the establishment of a merged entity. The Board of Directors, along with the Steering Committee set up by the Ministry of Finance in connection with the proposed merger are evaluating various options to secure sustainable funding for the Group in order to enable it to continue to meet its commitments.

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 (AED) and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), the Shariah rules and principles as determined by the Fatwa and Sharia'a Supervisory Board of the Company 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 recognised 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.

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

2.1 BASIS OF PREPARATION (continued)

Company	Basis for consolidation	Country of Incorporation	Percentage Shareholding	
			2008	2007
Amlak Finance & Real Estate Investment (S.A.E.)	Subsidiary	Egypt	100%	100%
Amlak Property Services LLC	Subsidiary	UAE	100%	-
Emaar Financial Services LLC	Subsidiary	UAE	57.50%	37.50%
Amlak Sky Gardens LLC	SPV	UAE	100%	100%
Amlak Holding FZCo	SPV	UAE	100%	100%
Park Investment LLC ('Park')	SPV	UAE	100%	100%
Tasabeeh Investment LLC ('Tasabeeh')	SPV	UAE	100%	100%
Waraqaa Heights LLC ('Waraqaa')	SPV	UAE	100%	100%

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.

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies are consistent with those used in the previous year with the exception of the below mentioned policy adopted in 2008:

The Group has adopted the following policy for accounting of property sale and purchase agreements.

The Group enters into Sharia compliant purchase contracts (Istisna'a) for the purchase of land or buildings. Such contracts are classified as property rights and are carried in the balance sheet at the lower of amounts paid for the purchase and net realisable value. Profit on the sale of such rights is recognised when the profit can be measured reliably and significant risks and rewards are transferred to the buyer.

When such sales are accompanied by deferred payment terms or ijarah financing, only the difference between the current cash sales price and the carrying amount of such properties is recognised as profit with the difference between the gross amounts ultimately receivable and current cash sales price recognised on an effective yield basis.

2.3 New accounting Standards and Interpretations

- (a) *The Group has adopted the following new and amended IFRIC Interpretations during the year. Adoption of these revised Standards and Interpretations did not have any significant effect on the financial performance or position of the Group for the current year.*

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

IFRIC 14 IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The principal effects of these new Standards are as follows.

IFRIC 11 IFRS 2 - Company and Treasury Share Transactions

This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed.

2 BASIS OF PREPARATION (continued)

2.3 New accounting Standards and Interpretations (continued)

IFRIC 14 IAS19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 *Employee Benefits*.

(b) Standards, amendments and interpretations effective in 2008 but not relevant to the Group's operations

IFRIC 12 Service Concession Arrangements

This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements.

(c) IASB Standards and Interpretations issued but not adopted

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

Amendments to IFRS 2 Share-based Payment

The IASB issued an amendment to IFRS 2 in January 2008 which becomes effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendment is not expected to have any impact on the financial position or performance of the Group as it does not have transactions that this interpretation relates to.

IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements

The revised Standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact on the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended Standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*.

IFRS 8 Operating Segments

IFRS 8 *Operating Segments* was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new Standard may require changes in the way the Group discloses information about its operating segments.

IAS 1 Revised Presentation of Financial Statements

The revised Standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The application of this standard will result in amendments to the presentation of the financial statements. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

IAS 23 Borrowing Costs

A revised IAS 23 was issued in March 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard has been revised to require capitalisation of financing 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 Group will adopt this as a prospective change. Accordingly, financing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for financing costs incurred to this date that have been expensed.

2 BASIS OF PREPARATION (continued)

2.3 New accounting Standards and Interpretations (continued)

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation

These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item and the designation of inflation as a hedged risk or portion in particular situations. It clarified that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group has concluded that the amendment will not have a significant impact on the financial position or performance of the Group as it has not entered into any such hedges.

IFRIC 15 Agreement for the Construction of Real Estate

IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the consolidated financial statement because the Group does not conduct such activity.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2009. The Interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Group the hedging instrument can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group management has concluded that the interpretation is not expected to have any impact on the Group's financial position or performance as it has got no such instruments.

(d) Improvements to IFRSs'

IFRS 7 Financial Instruments: Disclosures:

Removal of the reference to 'total interest income' as a component of finance costs.

IAS 8 Accounting Policies, Change in Accounting Estimates and Errors:

Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

IAS 10 Events after the Reporting Period:

Clarification that dividends declared after the end of the reporting period are not obligations.

IAS 16 Property, Plant and Equipment:

Replace the term "net selling price" with "fair value less costs to sell".

IAS 18 Revenue:

Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.

IAS 36 Impairment of Assets:

When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. The application of the above standards and improvements to IFRSs' will result in amendments to the presentation of the financial statements including, in some cases, revisions to the accounting policies.

2.4 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 Group reviews its 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 realisation costs.

Collective impairment provisions on financing and investing assets

In addition to specific provisions against individually significant financing and investing assets, the Group also makes a collective impairment provision against such assets. The collective impairment is established with reference to expected loss rates associated with different finance portfolios at different risk levels and the estimated time period for losses that are present but yet to be specifically identified, adjusting for the Group's view of the current and ongoing economic and portfolio trends. The parameters that affect the collective provisioning calculation are updated regularly, based the Group's experience and that of the market in general. Expected loss rates for the portfolios are based on the risk rating of each amount and on the probability of default factors associated with each risk rating, as well as estimates of loss given default.

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.

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 Group has the intention and ability to hold these to maturity. The Group 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 available-for-sale equity investments

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists 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.

2.5 DEFINITIONS

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

Istisna'a

Istisna'a is a sale contract whereby the Group (seller) undertakes to construct, for the customer (buyer), a specific asset or property according to certain pre-agreed specifications in consideration of a pre-determined price to be delivered during a pre-agreed period of time. The work undertaken is not restricted to be accomplished by the Group alone and the whole or part of the construction can be undertaken by third parties under the Group's control and responsibility. Under an Istisna'a contract the Group could be the seller or the buyer.

Ijarah

An agreement whereby the Group (lessor) purchases or leases an asset according to the customer's request (lessee), based on his promise to lease the asset, then leases the asset to the customer for a specific period and against certain rental payments. The duration of the lease, as well as the basis for rental payments, are set and agreed in advance. The Group retains legal ownership of the asset throughout the arrangement. Ijarah could end by transferring the ownership of the asset to the lessee.

Murabaha

Murabaha is an agreement whereby the Group sells to a customer an asset which the Group has purchased based on a promise received from the customer to buy the asset purchased according to specific terms and conditions. The selling price comprises the cost of the asset and an agreed profit margin.

Mudaraba

An agreement between the Group and a third party whereby one party would provide a certain amount of funds (Rab Al Mal), 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.

Sharia'a

Sharia'a is the body of Islamic law and is essentially derived from The Quran and The Sunna'h. The Group, being an Islamic Financial Institution, incorporates the essence of Sharia'a in its activities, as interpreted by its Fatwa and Sharia'a Supervisory Board.

Wakala

An agreement whereby the Group 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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

Ijarah

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

Murabaha

Murabaha deferred profit is accounted for on a time-proportion basis over the period of the contract based on the net Murabaha amounts outstanding.

Mudaraba

Income or losses on Mudaraba financing are accounted for on a time-proportion 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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Musharaka

Income is accounted for on the basis of the net invested Musharaka capital on a time-apportioned basis that reflects the effective yield on the asset.

Processing fees

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

Income on deposits

Income on deposits is accounted for on a time-apportioned basis based on the estimates of the management and past history of income on similar deposits.

Dividend

Dividend revenue is recognised when the right to receive the dividend is established.

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 Group's receivable is not subject to future subordination;
- d) The Group 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 Group's standard procedures and is approved by the Group's Fatwa and Sharia'a Supervisory Board.

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, net of outstanding bank dues, if any.

Financing and investing assets

Financing and investing assets include outstanding Ijarah fixed rentals and murabaha sales receivables net of deferred profits. These assets are stated at cost net of provisions for impairment, if any.

Properties held for trading

Properties held for trading 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.

Property rights held for trading

The Group enters into Sharia compliant purchase contracts (Istisna'a) for the purchase of land or buildings. Such contracts are classified as property rights and are carried in the balance sheet at the lower of amounts paid for the purchase and net realisable value.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sale of properties and property rights held for trading

Profit on sale of properties and property rights is recognised when the profit can be measured reliably and significant risks and rewards are transferred to the buyer. When such sales are accompanied by deferred payment terms or ijarah financing, only the difference between the current cash sales price and the carrying amount of such assets is recognised as profit with the difference between the gross amount ultimately receivable and current cash sales price recognised on an effective yield basis.

Available-for-sale investments

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

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 Group. 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.

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.

The financial statements of the associate are prepared for the same reporting period as the parent Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investment in its associates. The Group determines at each balance date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognises the amount in profit or loss.

Business combinations and goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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.

Financial instruments

The Group recognises financial assets, including financing and investing assets, or financial liabilities only when the Group 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 finance and receivables which are measured at amortised cost less any provision for impairment. Financial liabilities, after initial recognition, are measured at amortised cost.

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

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

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

- (a) 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;
- (b) 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
- (c) 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.

Zakat

Zakat is computed as per the Group'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.
- Zakat is disbursed by a committee appointed by the Board of Directors and operating as per the bye-laws set by the Board.

Accounts payable and accruals

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

Provisions

Provisions are recognised when the Group 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.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Employees' end of service benefits

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

The Group 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 recognised in the income statement.

Foreign currency translation

The Group's presentation and principal functional currency is UAE Dirhams.

All the assets and liabilities of the foreign subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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.

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 Group purchases or sells 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.

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 Group intends to settle on a net basis.

Segment reporting

The Group's segmental reporting is based on the following business segments; financing and investing activities, property transactions and others (treasury and other central functional).

3 BUSINESS COMBINATION AND ACQUISITION OF MINORITY INTERESTS**Acquisition of Emaar Financial Services LLC**

The Company had 37.50% stake in Emaar Financial Service LLC, until 30 June 2008 and consequently equity accounted for the investment. On 1 July 2008, the Company increased its holding in the share capital to 57.50%. As a result from 1 July 2008, Emaar Financial Services LLC became a subsidiary of the Company and has been consolidated from that date.

Carrying values of assets and liabilities at the date of acquisition have provisionally been recorded as fair values:

	<i>Carrying value AED '000</i>
Property, plant and equipment	2,930
Trade and other receivables	119,631
Trading securities	38,629
Other asset of subsidiary	105,600
Trade and other payables	266,790
Cash and cash equivalents	(106,890)
Subsidiary's minority interest	(57,810)
Employees' end of service benefits	(42,732)
	(304)
Net assets	59,054
Minority interest	(25,024)
	34,030
Cost:	
Initial investment included earlier under investment in associates	24,030
Acquisition of additional 20.00% from minority shareholder	10,000
	34,030

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3 BUSINESS COMBINATION AND ACQUISITION OF MINORITY INTERESTS (continued)

	<i>Carrying value AED'000</i>
Cash outflow on acquisition:	
Short term financing acquired with the subsidiary	(57,810)
Cash paid	(10,000)
Net cash out flow	<u>(67,810)</u>

The consideration for acquisition was settled through a receivable from related party, who also held stake in the subsidiary. The initial accounting for the above acquisition is only provisional at the period end as the fair value to be assigned to the acquiree's identifiable assets and liabilities have not been done. The Company will recognise any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date, and with effect from the acquisition date.

From the date of acquisition, Emaar Financial Services LLC has reduced the profit of the Group by AED 95,029 thousand.

4 INCOME FROM FINANCING AND INVESTING ASSETS

	<i>2008 AED'000</i>	<i>2007 AED'000</i>
<i>Financing assets</i>		
Ijarah	568,017	346,913
Murabaha	27,919	61,231
Profit on sale of properties held for trading	207,669	-
	<u>803,605</u>	<u>408,144</u>
<i>Investing assets</i>		
	2,540	979
	<u>806,145</u>	<u>409,123</u>

5 PROCESSING AND OTHER FEES

	<i>2008 AED'000</i>	<i>2007 AED'000</i>
Processing fees	71,353	39,828
Early settlement gains	26,301	14,856
Other fees	7,371	451
	<u>105,025</u>	<u>55,135</u>

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6 GAIN ON INVESTMENTS

	<i>2008</i> <i>AED'000</i>	<i>2007</i> <i>AED'000</i>
Realised gain		
Gain on sale of trading securities	407	863
Gain on sale of available-for-sale investments	48,254	57,957
Other	1,785	-
	<u>50,446</u>	<u>58,820</u>
Fair value gains (losses)		
Loss on trading securities	(25,935)	-
	<u>24,511</u>	<u>58,820</u>

7 PROFIT ON SALE OF PROPERTY RIGHTS

The Group sold the property rights of three properties for certain real estate developments to a related party at a profit of AED 192 million during the year ended 31 December 2008.

8 OTHER INCOME

	<i>2008</i> <i>AED'000</i>	<i>2007</i> <i>AED'000</i>
Management fees	2,400	2,353
Commission on sale of properties	6,646	4,000
Others	5,540	6,609
	<u>14,586</u>	<u>12,962</u>

9 OPERATING EXPENSES

	<i>2008</i> <i>AED'000</i>	<i>2007</i> <i>AED'000</i>
Personnel expenses	81,163	56,124
Rent	16,446	6,554
Advertisement and marketing	42,729	22,849
Depreciation	8,726	4,479
Impairment:		
Financing and investing assets	101,821	-
Available-for-sale investments	34,091	21,033
Other assets	63,442	-
Investment in associate	14,448	-
Other	83,137	34,086
	<u>446,003</u>	<u>145,125</u>

10 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11 BASIC AND DILUTED EARNINGS PER SHARE

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

	2008	2007
Profit for the year attributable to equity holders of the parent, net of directors' fees (AED'000)	238,595	301,212
Weighted average number of shares	1,491,666,667	1,500,000,000
Earnings per share	AED 0.16	AED 0.20

The weighted average number of shares has reduced during the year due to the purchase of own shares for employee stock option plan.

The diluted earnings per share is the same as the basic earnings per share, since the Company has not issued any instruments which would have an impact on earnings per share when exercised.

12 CASH AND CASH EQUIVALENTS

	2008 AED'000	2007 AED'000
Cash in hand	62	46
Current accounts	247,595	160,797
Deposits with Islamic banks	365,731	335,000
Cash and balances with banks	613,388	495,843
Less: Deposits maturing after 1 year	(35,000)	(35,000)
Less: Short term financing (note 24)	(34,036)	-
Cash and cash equivalents	544,352	460,843

Fixed deposit maturing after one year represent the amount deposited with a local bank under lien to the Central Bank of UAE in accordance with Central Bank regulations. All deposits are with Islamic banks earn a return that is determined at the end of each accounting period. Other deposits with local banks are AED 583.48 million and deposits in foreign banks are AED 29.91 million.

Escrow account balances of AED 235.71 million held in trust for developers are included in cash and balances with banks and other liabilities (note 24).

13 PROPERTIES HELD FOR TRADING

	2008 AED'000	2007 AED'000
Balance as at 1 January	2,030,335	-
Properties acquired	2,006,982	2,784,001
Cost of properties sold	(1,149,021)	(753,666)
Balance as at 31 December	2,888,296	2,030,335

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13 PROPERTIES HELD FOR TRADING (continued)

Properties held for trading are located within the UAE. The income from sale of properties held for trading was as follows:

	2008 AED'000	2007 AED'000
Revenue from sale of properties held for trading	277,616	886,915
Cost of sale of properties held for trading	(225,125)	(753,666)
	<u>52,491</u>	<u>133,249</u>

In view of the fact that only limited transactions in distressed situations are currently taking place in the market, it is not possible to determine the estimated selling price of properties held for trading at the balance sheet date with reasonable accuracy. Accordingly, they are carried at cost as of 31 December 2008.

Amounts totaling AED 858,223 thousand (2007: AED 1,208,872 thousand) are payable in respect of properties purchased by the Group and are included in liabilities.

The Group has not paid amounts totaling AED 380 million in respect of properties held for trading, which had become due in accordance with initial sale and purchase agreement. Negotiations are in progress to agree new payment plans in this respect. Management believes that the non payment will not have any adverse impact on the financial statements of the Group.

14 PROPERTY RIGHTS HELD FOR TRADING

This represents amounts paid by the Group in accordance with agreements for the purchase of properties. The properties have not yet been transferred to the Group. The Group is committed to pay additional amounts of AED 2,287 million (2007: AED 2,997 million) in accordance with those agreements.

In view of the fact that only limited transactions in distressed situations are currently taking place in the market, it is not possible to determine the estimated selling price of properties held for trading at the balance sheet date with reasonable accuracy. Accordingly, they are carried at cost as of 31 December 2008.

Property rights includes AED 229 million in respect of a building purchased by the Group in association with two other parties. The total cost of the building is AED 1,656 million. The Group's share is 34%, while the two other parties have 33% each. As at 31 of December 2008, the syndication has collectively paid 40% of the acquisition price. The transaction has been recorded in the books of the Group up to the amount of its shareholding in the investment.

One of the parties to the agreement has expressed its intention to exit the investment and assign its entire share of investment amounting to AED 546 million of which it has already paid AED 216 million to the Group. The party is also seeking to offset this payment against amount owed to the Group for an unrelated transaction. According to the Group's management, there is no legal right to offset the balance and the Group's management has not accepted the proposal as management is of the opinion that the party cannot exit the investment. Negotiations are going on in this respect with the party.

Furthermore, the Group has not paid the remaining purchase consideration to the seller of the building. The Group is currently in the process of renegotiating the terms of payment with the seller.

The Group has not paid amounts totaling AED 450 million in respect of property rights held for trading, which had become due in accordance with initial sale and purchase agreement. Negotiations are in progress to agree new payment plans in this respect. Management believes that the non payment will not have any adverse impact on the financial statements of the Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

15 FINANCING AND INVESTING ASSETS

	2008 AED'000	2007 AED'000
<i>Financing assets</i>		
Ijarah	5,635,711	2,997,046
Ijarah projects in progress	3,534,197	2,259,163
Commodities Murabaha	29,022	891,023
Real estate Murabaha	177,756	59,022
Financing of held for trading assets sold	761,127	-
Vehicle Murabaha	30,621	38,341
	<u>10,168,434</u>	<u>6,244,595</u>
Allowance for impairment (*)	(126,621)	(24,800)
Total financing assets	<u>10,041,813</u>	<u>6,219,795</u>
<i>Investing assets:</i>		
Mudaraba	6,847	7,605
Others	12,051	-
Total investing assets	<u>18,898</u>	<u>7,605</u>
	<u>10,060,711</u>	<u>6,227,400</u>

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

	2008 AED'000	2007 AED'000
Within U.A.E.	9,926,480	6,054,555
Outside U.A.E.	134,231	172,845
	<u>10,060,711</u>	<u>6,227,400</u>

The Ijarah assets include those offered as security for Sukuk payable (note 20) and certain investment deposits (note 24).

The movement in the allowance for impairment is as follows:

	2008 AED'000	2007 AED'000
At 1 January	24,800	24,800
Additions during the year	101,821	-
At 31 December	<u>126,621</u>	<u>24,800</u>

(*) Allowance for impairment includes includes AED 6.12 million (2007: AED 5.33 million) in respect of profit in suspense for impaired financing and investing assets.

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16 AVAILABLE-FOR-SALE INVESTMENTS

	<i>UAE</i>		<i>International</i>		<i>Total</i>	
	<i>31 December 2008</i>	<i>31 December 2007</i>	<i>31 December 2008</i>	<i>31 December 2007</i>	<i>31 December 2008</i>	<i>31 December 2007</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Equities and Fund (quoted)	46,400	70,522	9,567	34,878	55,967	105,400
Equities and Funds (unquoted)	16,208	135,806	45,464	129,843	61,672	265,649
Net available-for-sale investments	62,608	206,328	55,031	164,721	117,639	371,049

- (i) Quoted investments are carried at fair value determined by quoted market prices at the balance sheet date.
- (ii) Unquoted available-for-sale investments are carried at cost less provision for impairment, as the fair value cannot be reliably measured.
- (iii) The movement in the provision for impairment of available-for-sale investments is as follows:

	<i>2008</i>	<i>2007</i>
	<i>AED'000</i>	<i>AED'000</i>
At 1 January	39,690	18,657
Movement during the year	34,091	21,033
Less: Charged to profit and loss	(5,754)	-
At 31 December	68,027	39,690

17 INVESTMENTS IN ASSOCIATES

	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>Percentage holding</i>		<i>AED'000</i>	<i>AED'000</i>
Amlak International for Real Estate, Saudi Arabia	23.75%	23.75%	227,096	115,846
Amlak Jordan	23.42%	-	75,069	-
Amlak Qatar	40%	-	60,219	-
Emaar Financial Services (*)	-	37.5%	-	39,288
Landmark Properties	30%	-	51,393	-
			413,777	155,134

* Emaar Financial Services has been classified as a subsidiary upon acquisition of an additional 20% shares by the Group.

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Year ended 31 December 2008

17 INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates summarized financial information of the Group's investments in associates:

	<i>2008</i> <i>AED'000</i>	<i>2007</i> <i>AED'000</i>
Share of associates' balance sheet:		
Assets	391,841	307,585
Liabilities	(24,384)	(152,451)
Net assets	<u>367,457</u>	<u>155,134</u>
Share of associates' revenue and results:		
Revenue	<u>33,042</u>	<u>32,989</u>
Results	<u>(34,499)</u>	<u>7,782</u>

The excess of carrying amount of the investments over share in net assets represents unimpaired goodwill in connection with acquisition of 30% interest in Landmark Properties.

18 OTHER ASSETS

	<i>2008</i> <i>AED'000</i>	<i>2007</i> <i>AED'000</i>
Prepayments	28,188	5,101
Receivable for sale of available-for-sale investments	301,030	-
Income receivable	3,466	13,867
Due from related parties (note 33)	126,966	-
Assets held for disposal	99,604	-
Other	12,079	8,497
	<u>571,333</u>	<u>27,465</u>

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19 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 2008	11,969	19,993	460	32,422
Additions	3,740	7,074	336	11,150
On acquisition of subsidiary	3,579	3,748	52	7,379
Disposals	(865)	(137)	(52)	(1,054)
At 31 December 2008	18,423	30,678	796	49,897
Depreciation:				
At 1 January 2008	4,785	8,860	112	13,757
Depreciation charge for the year	2,669	6,933	167	9,769
On acquisition of subsidiary	1,477	1,913	33	3,423
Disposals	(379)	(128)	(43)	(550)
At 31 December 2008	8,552	17,578	269	26,399
Net book value:				
At 31 December 2008	9,871	13,100	527	23,498

	<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	11,969	19,993	460	32,422
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	4,785	8,860	112	13,757
Net book value:				
At 31 December 2007	7,184	11,133	348	18,665

20 SUKUK PAYABLE

On 18 July 2005, the Group issued a five year sukuk redeemable with profit over six semi annual payments 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 represents ownership of certain financing and investing assets located in Dubai with carrying value equal to the outstanding unredeemed sukuk amount (note 15).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

21 INVESTMENT DEPOSITS

	<i>2008</i> <i>AED'000</i>	<i>2007</i> <i>AED'000</i>
a) Deposits through Amlak Real Estate Fund		
At 1 January	235,742	254,447
Accrued profit	10,741	15,599
Payments during the year	(34,843)	(34,304)
At 31 December	<u>211,640</u>	<u>235,742</u>
b) Other Mudaraba and Wakala deposits	<u>11,233,403</u>	<u>5,029,801</u>
	<u><u>11,445,043</u></u>	<u><u>5,265,543</u></u>

The Group collected investment deposits of USD 75 million payable within 4 years with minimum expected profit rate of 6% through a special purpose real estate fund. These deposits are secured by certain Ijarah assets included in financing and investing assets (note 15). Other Mudaraba and wakala deposits are unsecured and will likely mature within one year.

Mudaraba arrangements represent funds for investment in the Group'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 Group (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 Group as an incentive.

22 OTHER LONG TERM FINANCING

	<i>2008</i> <i>AED'000</i>	<i>2007</i> <i>AED'000</i>
National Bank of Abu Dhabi (note A)	45,871	-
Egyptian Saudi Finance Bank (note B)	50,213	-
National Bank For Development (note C)	48,103	-
Istisna financing by subsidiary (note D)	33,321	-
Total	<u><u>177,508</u></u>	<u><u>-</u></u>

A) National Bank of Abu Dhabi

On 13 December 2007 National Bank of Abu Dhabi issued a long term finance of Egyptian Pounds 80 million to a subsidiary to finance Group's activity according to the Islamic Sharia'a. The term of the finance is for six months that ends at 10 June 2008 and renewable for another six months. The finance cost is calculated on the outstanding unpaid amount of 2% annually over the declared cost of Central Bank of Egypt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

22 OTHER LONG TERM FINANCING (continued)**B) Egyptian Saudi Finance Bank**

On 12 December 2007 Egyptian Saudi Finance Bank issued a long term facility of maximum limit Egyptian Pounds 100 million to finance the Murabaha facilities of one of the Group's subsidiary. The subsidiary has one year grace period starting from the date of the Murabaha as to pay the Murabaha installments. Murabaha profit is calculated as follows:

- 1.25% over the average Corridor profit rate of the Central Bank of Egypt of Murabaha maturing in more than three year including grace period and 2% of Murabaha maturing in three to five years including grace period.

Murabaha granted by the subsidiary under the terms of this agreement will be settled in quarterly installments in accordance with cash flow of the Group. The Company has given a guarantee in favour of the Saudi Finance Bank, Egypt in relation to the facility.

C) National Bank for Development

On August 2008 National Bank for Development issued a long term facility line of maximum limit Egyptian Pounds 100 million to finance subsidiary's activity according to Islamic Sharia by way of Investment Wakala. The subsidiary has grace period of 6 months to use the limit. Bank's Wakala expected profit is calculated as follows:

- 1.5% over the average Corridor profit rate of the central Bank of Egypt with an incentive rate of 11.5%. The Investment Wakala profit will be paid every 6 months.

D) Istisna financing

During 2008, the Group entered into an Istisna'a agreement with an Islamic bank to finance the acquisition of office condominium units in a property, which is currently being constructed. The total amount of the facility is AED 77 million, of which total payments made towards the construction cost as of 31 December 2008 is AED 46,963,015. The finance carries a profit of AED 10,195,078 over a three-year period, of which AED 3,284,249 has been amortised as of 31 December 2008 and included in the carrying amount of the payments for said property.

The finance amount of AED 77 million will eventually be converted into an Ijarah facility upon the handover of the property to the Group. Ijarah profit rate is 3 months EIBOR + 2.5% per annum (minimum 6.5% per annum) and is payable in quarterly instalments in 6 years after the handover of the completed property.

This facility is secured among others by: (a) a tripartite mortgage agreement among the developer of the property, the bank and the Group; (b) assignment of insurance over financed property; and (c) assignment of future rent income from the financed property.

23 EMPLOYEES' END OF SERVICE BENEFITS

	2008 AED'000	2007 AED'000
Movements in the provision recognised in the balance sheet are as follows:		
Provision as at 1 January	1,825	1,158
Transfer on acquisition of subsidiary	420	-
Provided during the year	2,421	1,072
End of service benefits paid	(1,043)	(405)
Provision as at 31 Decemberr	<u>3,623</u>	<u>1,825</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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

24 OTHER LIABILITIES

	2008 AED'000	2007 AED'000
Advances received against property under development	69,878	1,479
Accrued profit on sukuk	9,685	22,292
Accrued expenses	38,658	27,863
Payable under escrow accounts (*)	235,709	-
Land department fees payable	46,039	9,476
Brokerage payable	25,809	-
Due to related parties (note 33)	14,401	-
Dividend payable	8,377	-
Short term financing (note 12)	34,036	-
Other payables	218,344	33,399
	<u>700,936</u>	<u>94,509</u>

(*) The Company is an escrow agent and held amounts in trust for developers. The balance represent amounts held in trust as on 31 December 2008.

25 SHARE CAPITAL

	2008 AED'000	2007 AED'000
<i>Issued and fully paid</i>		
1,500,000,000 shares of AED 1 each		
(31 December 2007: 1,500,000,000 ordinary shares of AED 1 each)	<u>1,500,000</u>	<u>1,500,000</u>

26 EMPLOYEE SHARE SCHEME

During the year, the Group purchased 25 million of its shares, equivalent to 1.67% of the share capital. These shares are recorded in the balance sheet as employee stock option plan shares within equity, as the Group is planning to introduce such a plan. The market value of these shares as at 31 December 2008 based on price quoted prior to the suspension of trading is AED 1.02 per share.

27 STATUTORY RESERVE

As required by the Commercial Companies Law and the Company's Articles of Association, 10% of the profit for the year is transferred to statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. The Group transferred AED 28,570 thousand (2007: AED 30,286 thousand) to statutory reserve.

28 GENERAL RESERVE

As required by the Company's Articles of Association, 10% of the profit for the year is transferred to general reserve. As per the Articles of Association, deductions for the general reserve shall stop by resolution of an Ordinary General Assembly upon the recommendation of the Board of Directors or when this reserve reaches 50% of the paid up capital of the Company. This reserve shall be utilised for the purpose determined by the General Assembly at an ordinary meeting upon the recommendation of the Board of Directors. The Group transferred AED 28,570 thousand (2007: AED 30,286 thousand) to general reserve.

29 SPECIAL RESERVE

The special reserve, which has been created in accordance with the recommendations of the UAE Central Bank, is not available for distribution.

30 FOREIGN CURRENCY TRANSLATION RESERVE

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

31 PROPOSED DIVIDEND

No dividend is proposed for the year ended 31 December 2008. (2007: AED 150 million, per share AED 0.10).

32 SEGMENTAL INFORMATION

For management purposes the Group is organised into three business segments, financing and investing activities, property transactions and others (treasury and other central functional)

The Group's revenues and expenses for each segment for the year ended 31 December are as follows:

	<i>Financing and investing activities AED'000</i>	<i>Property transactions AED'000</i>	<i>Others AED'000</i>	<i>Total AED'000</i>
2008:				
Gross income	703,501	452,285	50,472	1,206,258
Allocated expenses	(306,709)	(197,185)	(22,004)	(525,898)
Segment results	<u>396,792</u>	<u>255,100</u>	<u>28,468</u>	<u>680,360</u>
Unallocated expenses				(480,502)
Share of Minority interest loss				40,387
Profit for the year				<u>240,245</u>
Segment assets	<u>10,060,711</u>	<u>4,035,050</u>	<u>1,750,702</u>	<u>15,846,463</u>
Segment liabilities	<u>9,377,166</u>	<u>3,696,890</u>	<u>711,944</u>	<u>13,786,000</u>
Depreciation			<u>1,790</u>	<u>1,790</u>
Capital expenditure			<u>11,150</u>	<u>11,150</u>
	<i>Financing and investing activities AED'000</i>	<i>Property transactions AED'000</i>	<i>Others AED'000</i>	<i>Total AED'000</i>
2007:				
Gross income	464,258	133,249	108,693	706,200
Allocated expenses	(174,866)	(50,189)	(40,940)	(265,995)
Segment results	<u>289,392</u>	<u>83,060</u>	<u>67,753</u>	<u>440,205</u>
Unallocated expenses				(137,343)
Profit for the year				<u>302,862</u>
Segment assets	<u>6,227,400</u>	<u>2,030,335</u>	<u>1,205,876</u>	<u>9,463,611</u>
Segment liabilities	<u>4,527,060</u>	<u>1,947,275</u>	<u>845,607</u>	<u>7,319,942</u>
Depreciation			<u>4,479</u>	<u>4,479</u>
Capital expenditure			<u>14,080</u>	<u>14,080</u>

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33 RELATED PARTY TRANSACTIONS

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

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

31 December 2008

	<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>2008 Total AED'000</i>
Financing and investing assets	-	-	52,264	13,473	65,737
Investment deposits	-	934,726	-	925,108	1,859,834
Other assets	3,226	-	-	123,740	126,966
Other liabilities	-	6,537	-	7,864	14,401

31 December 2007

	<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>
Financing and investing assets	-	-	43,378	17,964	61,342
Investment deposits	-	277,281	-	703,449	980,730
Other assets	3,008	-	-	19,262	22,270
Other liabilities	-	8,791	-	-	8,791

Outstanding balances at the year-end arose in the normal course of business. For the year ended 31 December 2008, the Group has not recorded any impairment of amounts owed by related parties (2007: nil).

Transactions with related parties included in the income statement are as follows:

31 December 2008

	<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>2008 Total AED'000</i>
Income from financing and investing assets	-	-	2,064	696	2,760
Income from investment deposits	-	-	-	(1,793)	(1,793)
Distribution to depositors	-	33,733	-	3,864	37,597
Sale of land	-	-	-	489,149	489,149

31 December 2007

	<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>
Income from financing and investing assets	-	-	889	1,348	2,237
Income from investment deposits	-	-	-	6,679	6,679
Guarantee commission	-	-	-	-	-
Distribution to depositors	-	21,430	-	3,864	25,294
Purchase of land	-	-	-	1,816,765	1,816,765

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33 RELATED PARTY TRANSACTIONS (continued)**Compensation of key management personnel**

In addition to the Directors' fees of AED 1.65 million paid for the year 2008, the compensation paid to key management personnel of the Group is as follows:

	<i>2008</i> <i>AED'000</i>	<i>2007</i> <i>AED'000</i>
Salaries and other benefits	14,737	10,800
Employee terminal benefits	338	357
	<u>15,075</u>	<u>11,157</u>

34 COMMITMENTS AND CONTINGENCIES*Commitments*

		<i>2008</i> <i>AED'000</i>	<i>2007</i> <i>AED'000</i>
Irrevocable commitments to extend credit	34.1	2,892,460	1,614,998
Purchase of property rights held for trading	34.2	2,286,916	2,996,563
Contribution to share capital	34.3	-	296,363
		<u>5,179,376</u>	<u>4,907,924</u>

34.1 Credit-related commitments include commitments to extend facilities 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.

34.2 At the year end, the Group was committed to purchase certain properties (note 14).

34.3 The Group has commitments on account of uncalled capital of an associate and other investees. The Group has to pay as and when calls are made by the investee companies.

Contingencies

The Group has issued guarantees on behalf of subsidiaries amounting to AED 283 million and others AED 2 million (2007: AED 3,460 thousand).

35 RISK MANAGEMENT

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement, mitigation and monitoring subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and sustainability. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

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

The major risks to which the Group is exposed in conducting its business and operations, and the means and organisational structure it employs in seeking to manage them strategically in its attempt to build stakeholder's value are outlined below.

35 RISK MANAGEMENT (continued)

The Board of Directors ("Board") is responsible for the continuous review and approval of the Group's Risk Policies and Medium Term and Annual Risk Strategy, within which business strategy, objectives and targets are formulated. The Board reviews the Group's Risk Profile to ensure that it is within the Group'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 Group's Risk Policies and Strategy.

Executive Management is responsible for implementing the Group'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 Group maintains an effective system of financial, accounting and risk management controls and for monitoring compliance with the requirements of the regulatory authorities.

The Group's Fatwa and Sharia Supervisory Board is responsible to review the operational, financing and investing activities of the Group 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 pronouncements issued by Fatwa and Sharia Supervisory Board are coordinated and implemented by the management of the Company. The management of the Company seeks guidance from the Fatwa and Sharia Supervisory Board for the implementation of its Fatwas and pronouncements.

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 Group'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 Group has introduced Risk Adjusted Pricing Model for financing 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 Group's strategic goals. ALCO monitors the Group's liquidity and market risks and the Group's risk profile in the context of economic developments and market fluctuations, to ensure that the Group'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 financing contracts, product parameters etc.

The Group'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 Group 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 Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

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

35 RISK MANAGEMENT (continued)

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 Group's performance to developments affecting a particular nationality, industry or geographical location.

The Group's risks are mainly related to the property market in the UAE, in particular in Dubai.

In order to avoid further excessive concentration of risk, the Group's policies and procedures include specific guidelines to focus on 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 Group. Such risk stems mainly from day to day Islamic financing activities undertaken by the Group. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated financing authorities, policies and procedures. For details of composition of Islamic financing assets refer note 15.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties and continually assessing the creditworthiness of counter parties. The Group 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 emphasising prudence in its financing activities and ensuring quality of asset portfolio. Special attention is paid to the management of non-performing financing assets.

The Group 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 Group encourages Ijara financing, as evident from the portfolio composition, which entails the ownership of the property with the Group till clearance of all rental payments due. This results in full collateralisation of the finance amount (fixed rentals). The Group's customers are mainly based in the United Arab Emirates.

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35 RISK MANAGEMENT (continued)

Credit risk (continued)

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 2008 AED'000</i>	<i>Gross maximum exposure 2007 AED'000</i>
Deposits with banks (note 12)	613,326	495,797
Property rights held for trading (note 14)	1,146,754	137,720
Financing and investing assets (note 15)	10,060,711	6,227,400
Trading securities	11,067	-
Available-for-sale investments (note 16)	117,639	371,049
Investments in associates (note 17)	413,777	155,134
Other assets (other than prepayment) (note 18)	543,145	22,364
Total (A)	<u>12,906,419</u>	<u>7,409,464</u>
Irrevocable commitments to extend credit (note 34)	<u>2,892,460</u>	<u>1,614,998</u>
Total (B)	<u>2,892,460</u>	<u>1,614,998</u>
Total credit risk exposure (A + B)	<u>15,798,879</u>	<u>9,024,462</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 Group using internal credit ratings. The table below shows the credit quality by class of financial asset, based on the Group's credit rating system.

Amlak Finance PJSC and its Subsidiaries

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Year ended 31 December 2008

35 RISK MANAGEMENT (continued)

Credit risk (continued)

31 December 2008

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 AED'000	Watch list AED'000	Re-negotiated terms AED'000	<30 AED'000	30-60 AED'000	61-90 days AED'000	>90 days AED'000	Gross amount AED'000	Allowance for impairment AED'000	Carrying amount AED'000
613,326	613,326	-	-	-	-	-	-	-	-	-
1,146,754	1,146,754	-	-	-	-	-	-	-	-	-
10,060,711	7,843,621	-	-	1,604,655	440,381	98,306	66,362	134,007	(126,621)	7,386
11,067	11,067	-	-	-	-	-	-	-	-	-
117,639	117,639	-	-	-	-	-	-	-	-	-
413,777	413,777	-	-	-	-	-	-	68,032	(68,032)	-
543,145	543,145	-	-	-	-	-	-	-	-	-
12,906,419	10,689,329	-	-	1,604,655	440,381	98,306	66,362	202,039	(194,653)	7,386

31 December 2007

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 AED '000	Watch list AED '000	Re-negotiated terms AED '000	<30 AED '000	30-60 AED '000	61-90 days AED '000	>90 days AED '000	Gross amount AED '000	Allowance for impairment AED '000	Carrying amount AED '000
Cash and deposits with banks	495,843	-	-	-	-	-	-	-	-	-
Advances for purchase of properties	137,720	-	-	-	-	-	-	-	-	-
Financing and investing assets	6,227,400	-	5,773	1,153,000	367,000	39,000	39,000	35,100	(24,800)	10,300
Available-for-sale investments	371,049	-	-	-	-	-	-	53,352	(39,690)	13,662
Investments in associates	155,134	-	-	-	-	-	-	-	-	-
Other assets (other than prepayment)	22,364	-	-	-	-	-	-	-	-	-
	7,409,510	-	5,773	1,153,000	367,000	39,000	39,000	88,452	(64,490)	23,962

35 RISK MANAGEMENT (continued)**Collateral and other credit enhancements**

The finance provided by the Group is completely asset backed in accordance with the principles of Shariah. Properties are funded based on "Group'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 Group might have lower rates than the developers based on the Group'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 Group 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. As the US Dollar is pegged to the UAE Dirham, balances in US Dollars are not considered to represent significant currency risk.

	% Change in currency rate in AED	2008		2007	
		Effect on profit AED '000	Effect on equity AED '000	Effect on profit AED '000	Effect on equity AED '000
Currency					
Egyptian Pound (LEY)	+5%	3,683	-	1,520	-
Saudi Riyals (SAR)	+5%	-	11,216	-	5,787

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

35 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 Group'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 Group 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 Group 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/capped 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 Group'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 2008. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets.

	2008 AED '000	2007 AED '000
Effect of a $\pm$ 50 bps change in EIBOR/LIBOR	$\pm$ 4,835	$\pm$ 3,791
Effect of a $\pm$ 100 bps change in EIBOR	$\pm$ 9,671	$\pm$ 7,582

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 Group'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 2008 due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	% Change in equity price	2008 AED '000	2007 AED '000
Market Indices			
Dubai Financial Markets	+5	647	3,526
Bahrain Stock Exchange	+5	1	1,021
Others	+5	478	723

Early settlement risk

Early settlement risk is the risk that the Group will incur a financial loss because its counterparties settle earlier or later than expected.

The Group does not have any significant early settlement risk as the amount recovered in case of early settlement is more than the fair value of the asset on early settlement date, by retaining an amount of deferred profit or adding a margin to the sale price of the Ijarah asset as an early settlement gain. 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 Group's financial liabilities and off balance sheet commitments based on contractual undiscounted payment obligations. Payments, which are subjected to notice are treated as if notice were to be given immediately.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

35 RISK MANAGEMENT (continued)

Liquidity risk (continued)

At 31 December 2008

	Expected Profit rate %	Up to 1 year			Total 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
		Less than 3 months AED '000	3 months to 6 months AED '000	6 months to 1 year AED '000					
Sukuk payable	5-7%	132,295	-	122,610	254,905	245,221	-	-	500,126
Investment deposits	3-7%	8,080,257	2,836,498	702,907	11,619,662	-	-	-	11,619,662
Other long term financing	6.5-11%	47,132	-	-	47,132	138,127	-	-	185,259
		8,259,684	2,836,498	825,517	11,921,699	383,348	-	-	12,305,047
OFF BALANCE SHEET ITEMS									
Commitments		1,698,517	851,619	1,285,088	3,835,224	1,344,152	-	-	5,179,376

At 31 December 2007

	Expected Profit rate %	Up to 1 year			Total 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
		Less than 3 months AED '000	3 months to 6 months AED '000	6 months to 1 year AED '000					
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
		4,239,798	699,100	322,333	5,261,231	738,712	-	-	5,999,943
OFF BALANCE SHEET ITEMS									
Commitments		1,198,152	1,173,138	903,945	3,275,235	1,632,688	-	-	4,907,923

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

35 RISK MANAGEMENT (continued)

Maturity analysis of assets and liabilities

The maturity analysis of assets, liabilities and off balance sheet items analysed according to when they are expected to be recovered, settled or sold.

At 31 December 2008

	Up to 1 year				Total 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
	Less than 3 months AED'000	3 months to 6 months AED'000	6 months to 1 year AED'000	Total up to 1 year AED'000					
Assets									
Cash and deposits with banks	578,388	-	-	578,388	35,000	-	-	-	613,388
Properties held for trading	-	-	-	-	2,888,296	-	-	-	2,888,296
Property rights held for trading	-	-	-	-	1,146,754	-	-	-	1,146,754
Financing and investing assets	748,037	437,548	678,894	1,864,479	2,750,681	5,445,551	-	-	10,060,711
Trading securities	-	11,067	-	11,067	-	-	-	-	11,067
Available-for-sale investments	-	23,189	94,450	117,639	-	-	-	-	117,639
Investments in associates	-	-	75,070	75,070	-	-	338,707	-	413,777
Other assets	334,592	99,929	-	434,521	6,959	6,958	122,895	-	571,333
Furniture, fixture and equipment	-	-	-	-	-	-	23,498	-	23,498
Total assets	1,661,017	571,733	848,414	3,081,164	6,827,690	5,452,509	485,100	15,846,463	
Liabilities									
Sukuk payable	122,333	-	122,562	244,895	244,667	-	-	-	489,562
Investment deposits	7,992,874	2,780,167	672,002	11,445,043	-	-	-	-	11,445,043
Payables for properties held for trading	-	-	-	-	951,929	-	-	-	951,929
Other long term financing	45,871	-	-	45,871	131,637	-	-	-	177,508
Accrued Zakat	-	-	17,399	17,399	-	-	-	-	17,399
Employees' end of service benefits	-	-	-	-	-	-	-	-	-
Other liabilities	182,553	515,395	2,988	700,936	-	-	3,623	-	3,623
Total liabilities	8,343,631	3,295,562	814,951	12,454,144	1,328,233	-	3,623	13,786,000	
Commitments									
	1,698,517	851,619	1,285,088	3,835,224	1,344,152	-	-	-	5,179,376
Net liquidity gap	(8,381,131)	(3,575,448)	(1,251,625)	(13,208,204)	4,155,305	5,452,509	481,477	(3,118,913)	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

35 RISK MANAGEMENT (continued)

Maturity analysis of assets and liabilities (continued)

At 31 December 2007

	Up to 1 year			Total 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	Less than 3 months AED '000	3 months to 6 months AED '000	6 months to 1 year AED '000					
Cash and deposits with banks	460,843	35,000	-	495,843	-	-	-	495,843
Properties held for trading	2,030,335	-	-	2,030,335	-	-	-	2,030,335
Property rights held for trading	137,720	-	-	137,720	-	-	-	137,720
Financing and investing assets	87,033	233,651	428,600	749,284	2,659,123	2,818,993	-	6,227,400
Available-for-sale investments	-	2,661	3,672	6,333	66,026	31,933	266,757	371,049
Investment in associates	-	-	-	-	-	-	155,134	155,134
Other assets	27,465	-	-	27,465	-	-	-	27,465
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	122,333	-	122,333	244,666	489,734	-	-	734,400
Investment deposits	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
	<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>-</u>	<u>7,319,942</u>
Commitments	1,198,152	1,173,138	903,945	3,275,235	1,632,688	-	-	4,907,923
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>440,556</u>	<u>(2,764,254)</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

35 RISK MANAGEMENT (continued)

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

36 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities. Financial assets of the Group include cash and deposits with banks, financing and investing assets, investments and other assets. Financial liabilities of the Group include bank dues, 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.

37 COMPARATIVE INFORMATION

Provision for impairment of unquoted available-for-sale investments amounting to AED 18,657 thousand as of 31 December 2007 was inadvertently classified under financing and investing assets, instead of other investment. This has now been correctly classified.

Property rights held for trading amounting to AED 137,720 thousand included in the other assets are now presented as a separate line item in the balance sheet to facilitate comparison with current year's accounts.