

**Mashreq Al-Islami Finance Company (P.J.S.C.)  
Dubai - United Arab Emirates**

**Report and financial statements  
for the year ended 31 December 2011**

## **Mashreq Al-Islami Finance Company (P.J.S.C.)**

<b>Contents</b>	<b>Pages</b>
<b>Independent auditor's report</b>	<b>1 &amp; 2</b>
<b>Statement of financial position</b>	<b>3</b>
<b>Income statement</b>	<b>4</b>
<b>Statement of comprehensive income</b>	<b>5</b>
<b>Statement of changes in shareholders' equity</b>	<b>6</b>
<b>Statement of cash flows</b>	<b>7</b>
<b>Notes to the financial statements</b>	<b>8 - 38</b>

## INDEPENDENT AUDITOR'S REPORT

### **The Shareholders**

**Mashreq Al-Islami Finance Company (P.J.S.C.)**

**Dubai**

**United Arab Emirates**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of **Mashreq Al-Islami Finance Company (P.J.S.C.), Dubai** (the "Company"), which comprise statement of financial position as at 31 December 2011, and the income statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatements whether due to fraud or errors.

#### *Auditor's 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 auditor's judgment, 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 in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Cont'd...

## INDEPENDENT AUDITOR'S REPORT (continued)

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Mashreq Al-Islami Finance Company (P.J.S.C), Dubai** as at 31 December 2011, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

### **Report on Other Legal and Regulatory Requirements**

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

**Deloitte & Touche (M.E.)**



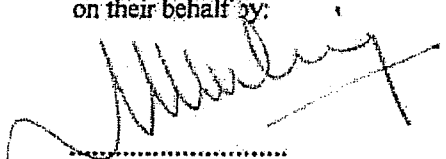
**Anis Sadek**  
**Registration No. 521**  
**21 March 2012**

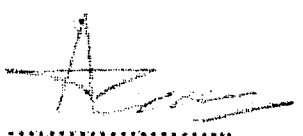
Statement of financial position  
as at 31 December 2011

	Notes	2011 AED	2010 AED
<b>ASSETS</b>			
Cash and cash equivalents	5	18,659,712	61,839,200
Other financial assets measured at fair value through other comprehensive income (FVTOCI)	6	36,601,374	33,642,632
Islamic financing and investment products measured at amortised cost	8	460,135,812	399,527,319
Other financial assets measured at amortised cost	6	148,708,679	156,477,497
Other receivables and assets	9	108,763	23,733
Property and equipment	10	213,189,921	213,327,348
<b>Total assets</b>		<b>877,404,261</b>	<b>864,837,729</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Due to a bank	7	314,833,699	320,049,496
Other payables	11	1,912,065	550,227
<b>Total liabilities</b>		<b>316,745,764</b>	<b>320,599,723</b>
<b>Shareholders' equity</b>			
Issued and paid up share capital	12	500,000,000	500,000,000
Statutory reserve	13	6,054,041	4,707,866
Investments revaluation reserve	14	3,075,103	116,361
Retained earnings		51,529,353	39,413,779
<b>Total shareholders' equity</b>		<b>560,658,497</b>	<b>544,238,006</b>
<b>Total liabilities and shareholders' equity</b>		<b>877,404,261</b>	<b>864,837,729</b>

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

The financial statements on pages 3 to 38 were approved by the management on 21 March 2012 and signed on their behalf by:

  
Moinuddin Malim  
Chief Executive Officer

  
Ali Raza Khan  
Head of Corporate Affairs

**Income statement  
for the year ended 31 December 2011**

	Notes	2011 AED	2010 AED
<b>Income</b>			
Income from Murabaha		12,128,722	4,028,785
Income from Ijara		13,888,145	9,134,151
Income from Mudaraba	7	1,523,186	3,310,060
Income from Sukuk		3,700,504	4,100,243
Fees and commission income	7	2,069,925	3,558,727
<b>Total income</b>		<b>33,310,482</b>	<b>24,131,966</b>
<b>Expenses</b>			
General and administrative expenses	15	(968,250)	(3,016,337)
Impairment of Islamic financing and investment products measured at amortised cost, net		(15,780,483)	(16,540,686)
Impairment of other financial assets measured at amortised cost	6	(3,100,000)	(7,088,098)
<b>Total expenses</b>		<b>(19,848,733)</b>	<b>(26,645,121)</b>
<b>Profit/(loss) for the year</b>		<b>13,461,749</b>	<b>(2,513,155)</b>

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

**Statement of comprehensive income  
for the year ended 31 December 2011**

	<b>2011 AED</b>	<b>2010 AED</b>
<b>Profit/(loss) for the year</b>	<b>13,461,749</b>	<b>(2,513,155)</b>
<b>Other comprehensive income</b>		
Changes in fair value of other financial assets measured at fair value through other comprehensive income	<b>2,958,742</b>	<b>2,625,175</b>
<b>Total other comprehensive income for the year</b>	<b>2,958,742</b>	<b>2,625,175</b>
<b>Total comprehensive income for the year</b>	<b>16,420,491</b>	<b>112,020</b>

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

Statement of changes in shareholders' equity  
for the year ended 31 December 2011

	Issued and paid up share capital AED	Statutory reserve AED	Investments revaluation reserve AED	Retained earnings AED	Total AED
Balance at 31 December 2009	500,000,000	4,707,866	(2,508,814)	41,926,934	544,125,986
Loss for the year	-	-	-	(2,513,155)	(2,513,155)
Other comprehensive income for the year	-	-	2,625,175	-	2,625,175
Total comprehensive income for the year	-	-	2,625,175	(2,513,155)	112,020
Balance at 31 December 2010	500,000,000	4,707,866	116,361	39,413,779	544,238,006
Profit for the year	-	-	-	13,461,749	13,461,749
Other comprehensive income for the year	-	-	2,958,742	-	2,958,742
Total comprehensive income for the year	-	-	2,958,742	13,461,749	16,420,491
Transferred to statutory reserve	-	1,346,175	-	(1,346,175)	-
Balance at 31 December 2011	500,000,000	6,054,041	3,075,103	51,529,353	560,658,497

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



**Statement of cash flows  
for the year ended 31 December 2011**

	<b>2011</b>	2010
	<b>AED</b>	AED
<b>Cash flows from operating activities</b>		
Profit/(loss) for the year	13,461,749	(2,513,155)
Adjustments for:		
Depreciation of property and equipment	137,427	341,263
Impairment of Islamic financing and investment products measured at amortised cost, net	15,780,483	16,540,686
Loss from disposal of property and equipment	-	924,626
Impairment of other financial assets measured at amortised cost	3,100,000	7,088,098
	<hr/>	<hr/>
<b>Operating cash flows before changes in operating assets and liabilities</b>	<b>32,479,659</b>	<b>22,381,518</b>
Increase in Islamic financing products measured at amortised cost	(76,388,976)	(12,863,603)
(Increase)/decrease in other receivables and assets	(85,030)	715,139
Increase in other payables	1,361,838	17,719
	<hr/>	<hr/>
<b>Net cash (used in)/generated from operating activities</b>	<b>(42,632,509)</b>	<b>10,250,773</b>
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	-	(212,853,005)
Proceeds from sale of property and equipment	-	23,810
Decrease in other financial assets measured at amortised cost	4,668,818	41,755,340
	<hr/>	<hr/>
<b>Net cash generated from/(used in) investing activities</b>	<b>4,668,818</b>	<b>(171,073,855)</b>
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
(Decrease)/increase in due to a bank	(5,215,797)	160,081,188
	<hr/>	<hr/>
<b>Net cash (used in)/generated from financing activities</b>	<b>(5,215,797)</b>	<b>160,081,188</b>
	<hr/>	<hr/>
<b>Net decrease in cash and cash equivalents</b>	<b>(43,179,488)</b>	<b>(741,894)</b>
Cash and cash equivalents at 1 January	61,839,200	62,581,094
	<hr/>	<hr/>
<b>Cash and cash equivalents at 31 December (Note 5)</b>	<b>18,659,712</b>	<b>61,839,200</b>
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The accompanying notes form an integral part of these financial statements.

**Notes to the financial statements  
for the year ended 31 December 2011****1. General information**

Mashreq Al-Islami Finance Company (P.J.S.C.) (the “Company”) is a private joint-stock company and is a subsidiary of Mashreqbank psc, Dubai (the “Parent Company”). The Company was incorporated in the United Arab Emirates under a trade license issued by the Department of Economic Development of the Government of Dubai.

The address of the registered office of the Company is P.O. Box 1250, Dubai, United Arab Emirates.

The Company carries out financing activities through various Islamic instruments, in accordance with Islamic Shari’a principles which includes prohibition of usury.

***Shari’a Supervisory Board***

The Company’s business activities are subject to the supervision of the Shari’a Supervisory Board which is entrusted with the duty of reviewing and directing the activities of the Company in accordance with the Islamic Shari’a rules and principles.

**2. Adoption of new and revised International Financial Reporting Standards (IFRSs)*****2.1 Standards and Interpretations effective for the current year***

The following new and revised standards and interpretations have been adopted in the current year with no material impact on the disclosures and amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements:

- Amendments to IAS 24 Related Party Disclosures modify the definition of a related party and simplify disclosures for government-related entities.
- Amendments to IAS 32 Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability.
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement. The amendments correct an unintended consequence of IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular equity instruments issued under such arrangements are measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued are recognized in the income statement.
- Improvements to IFRSs issued in 2010 – Amendments to: IFRS 1; IFRS 3 (2008); IAS 1; IAS 27 (2008); IAS34; and IFRIC 13.

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**2. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)**

*2.2 Standards and Interpretations in issue but not yet effective*

The Company has not early applied the following new standards, amendments and interpretations that have been issued but not yet effective:

	<b>Effective for annual periods <u>beginning on or after</u></b>
<ul style="list-style-type: none"> <li>Amendments to IFRS 7 Disclosures – Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.</li> </ul>	1 July 2011
<ul style="list-style-type: none"> <li>IFRS 10 Consolidated Financial Statements* uses control as the single basis for consolidation, irrespective of the nature of the investee. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. Accordingly IAS 27 Separate Financial Statements* and IAS 28 Investments in Associates and Joint Ventures* have been amended for the issuance of IFRS 10.</li> </ul>	1 January 2013
<ul style="list-style-type: none"> <li>IFRS 11 Joint Arrangements* establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. Accordingly IAS 28 Investments in Associates and Joint Ventures has been amended for the issuance of IFRS 11.</li> </ul>	1 January 2013
<ul style="list-style-type: none"> <li>IFRS 12 Disclosure of Interests in Other Entities* combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure Standard.</li> </ul>	1 January 2013
<ul style="list-style-type: none"> <li>IFRS 13 Fair Value Measurement issued in May 2011, establishes a single framework for measuring fair value and is applicable for both financial and non-financial items.</li> </ul>	1 January 2013
<ul style="list-style-type: none"> <li>Amendments to IAS 1 – Presentation of Other Comprehensive Income. The amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate statements. However, items of other comprehensive income are required to be classified into those that will and will not subsequently be reclassified to the income statement</li> </ul>	1 July 2012

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**2. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)**

**2.2 Standards and Interpretations in issue but not yet effective (continued)**

	<b>Effective for annual periods <u>beginning on or after</u></b>
• Amendments to IAS 19 Employee Benefits eliminate the “corridor approach” and therefore require an entity to recognize changes in defined benefit plan obligations and plan assets when they occur.	1 January 2013
• Amendments to IFRS 7 Financial Instruments: Disclosures enhancing disclosures about offsetting of financial assets and liabilities.	1 January 2013
• Amendments to IAS 32 Financial Instruments: Presentation relating to application guidance on the offsetting of financial assets and financial liabilities.	1 January 2014

\* In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011). These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The management anticipates that the adoption of these Standards and Interpretations will have no material impact on the financial statements of the Company in the year of initial application.

**3. Significant accounting policies**

**3.1 Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the Shari’a rules and principles as determined by the Company’s Shari’a Supervisory Board to the extent that those are compatible with IFRS and applicable requirements of U.A.E. laws (including Central Bank of the U.A.E. requirements as related to impairment of financial assets).

**3.2 Basis of preparation**

The financial statements have been prepared on the historical cost basis except for other financial assets measured at fair value through other comprehensive income (FVTOCI) which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies adopted are set out below.

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**3. Significant accounting policies (continued)**

**3.3 Revenue recognition**

*Income from Islamic financing and investments products*

The Company's policy for recognition of income from Islamic financing and investments products is described in Note 3.11 (iii).

*Fee and commission income and expenses*

Fee and commission income and expenses are accounted for on the date the transaction arises.

**3.4 Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

**3.5 Foreign currencies**

These financial statements are presented in United Arab Emirates Dirham (AED) since that is the currency of the country in which the Company is domiciled.

Transactions denominated in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing at the end of the reporting period. Gains and losses arising from foreign currency transactions are included in the income statement.

**3.6 Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any, except for land which is measured at cost less accumulated impairment loss, if any. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement when incurred.

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**3. Significant accounting policies (continued)**

**3.6 Property and equipment (continued)**

Depreciation is charged, so as to write-off the cost over their estimated useful lives, using the straight-line method, as follows:

Leasehold improvements	5 years
Furniture and fixtures	3 - 7 years
Computers	3 years

The estimated useful lives, residual values and depreciation method are reviewed at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis.

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

**3.7 Impairment of tangible assets**

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in income statement.

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**3. Significant accounting policies (continued)**

**3.8 Provisions**

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

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

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

**3.9 Financial instruments**

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in the income statement.

**3.9.1 Financial assets**

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

*Classification of financial assets*

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'financial assets measured at amortized cost'.

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**3. Significant accounting policies (continued)**

**3.9 Financial instruments (continued)**

**3.9.1 Financial assets (continued)**

Financial assets measured at amortized cost, including Islamic financing and investment products, are measured at amortised cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

Amortised cost and effective profit method

The effective profit method is a method of calculating the amortised cost of a financial asset measured at amortized cost and of allocating profit over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financial asset measured at amortized cost, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Profit is recognised on an effective profit basis for financial asset measured subsequently at amortised cost. Profit is recognised in the income statement.

Financial assets at fair value through other comprehensive income (FVTOCI)

At initial recognition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not transferred to income statement, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in the income statement when the Company's right to receive the dividends is established in accordance with IAS 18 *Revenue*, unless the dividends clearly represent a recovery of part of the cost of the investment.



**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**3. Significant accounting policies (continued)**

**3.9 Financial instruments (continued)**

**3.9.1 Financial assets (continued)**

Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore, for financial assets that are designated as at FVTOCI, any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated financial asset measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the income statement.

Impairment of financial assets measured at amortized cost

Financial assets measured at amortized cost are assessed for indicators of impairment at each reporting date. Financial assets measured at amortized cost are impaired where there is an objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset measured at amortized cost, the estimated future cash flows of the investment have been impacted. For financial assets measured at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective profit rate.

The carrying amount of the financial asset measured at amortized cost is reduced by the impairment loss directly with the exception of Islamic financing and investment products and other financial assets measured at amortised cost where the carrying amount is reduced through the use of an allowance account. When advance receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the income statement.

Impairment of retail Islamic financing and investment products is calculated by applying a formulaic approach whereby a provision of 25% of net exposure is made when it is past due by more than 90 days, a provision of 50% of net exposure is made when it is past due by more than 120 days and less than 180 days and a provision of 100% of next exposure is made when it is past due by more than 180 days.

Derecognition of financial assets

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

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**3. Significant accounting policies (continued)**

**3.9 Financial instruments (continued)**

3.9.1 Financial assets (continued)

Derecognition of financial assets (continued)

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the income statement.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to the income statement, but is reclassified to retained earnings.

3.9.2 Financial liabilities and equity instruments

Classification as liability or equity

Liability and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective profit rate method.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantee contracts issued by the Company, and commitments issued by the Company to provide a loan at below-market profit rate are measured in accordance with the specific accounting policies set out below.

*Financial liabilities subsequently measured at amortised cost*

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective profit method.

The effective profit method is a method of calculating the amortised cost of a financial liability. The effective profit rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**3. Significant accounting policies (continued)**

**3.9 Financial instruments (continued)**

**3.9.2 Financial liabilities and equity instruments (continued)**

***Financial liabilities (continued)***

***Foreign exchange gains and losses***

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the income statement.

***De-recognition of financial liabilities***

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in income statement.

**3.10 Offsetting of financial assets and liabilities**

Financial assets and liabilities are offset and reported net in the statement of financial position only when there is a legally enforceable right to set off the recognized amounts or when the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

**3.11 Islamic financing and investment products**

All Islamic banking products are accounted for in conformity with the accounting policies described below:

**(i) Definitions**

The following terms are used in Islamic financing:

***Murabaha***

An agreement whereby the Company sells to a customer a commodity or an asset, which the Company has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

***Ijara***

An agreement whereby the Company acting as a lesser, purchases or constructs an asset for lease according to the customer's request (lessee), based on his promise to lease the asset for an agreed rent and a specific period that could end by transferring the ownership of the leased asset to the lessee.

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**3. Significant accounting policies (continued)**

**3.11 Islamic financing and investment products (continued)**

***Mudaraba***

Mudaraba is a profit sharing partnership contract between a capital provider (Rab-ul-Mal) and a fund manager (Mudarib). In a depository relationship with the Company, the Company acts as a Mudarib and customer as Rab-ul-Mal whereas in case of a financing or investment mode, the Company acts as the capital provider (Rab ul Mal) and the customer as the Fund Manager (Mudarib). In both of cases Mudaraba Contract is a profit sharing arrangement wherein capital provider bears the risk and the Mudarib (Fund Manager) contributes expertise and management skills. In case of loss, it falls on the financier/investor except in the case of negligence, misconduct and breach of contract by the Mudarib (Fund Manager).

***Sukuk***

These comprised asset backed Shari'a compliant trust certificates. The trust certificate owners share the return and bear the losses in proportion to the certificates held by them.

**(ii) Accounting policy**

Islamic financing and investment products are measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income.

The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Allowance for impairment is made against Islamic financing and investment products when their recovery is in doubt taking into consideration IFRS requirements (as explained in Note 3.9.1). Islamic financing and investment products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

**(iii) Revenue recognition policy**

Income from Islamic financing and investment assets are recognised in the income statement using the effective profit method.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

***Murabaha***

Murabaha income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

***Ijara***

Ijarah income is recognised on effective profit rate basis over the lease term.

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**3. Significant accounting policies (continued)**

**3.11 Islamic financing and investment products (continued)**

*(iii) Revenue recognition policy (continued)*

***Mudaraba***

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

***Profit and coupon revenue***

Profit and coupon revenue is accrued on a time basis, by reference to the principal outstanding and at the effective profit rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

**4. Critical accounting judgments and key sources of estimation uncertainty**

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

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

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

**(i) Impairment of Islamic financing and investment products measured at amortised cost**

The Company reviews its Islamic financing and investment products on a regular basis to assess whether a provision for impairment should be recorded in the income statement in relation to any non-performing assets. 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.

Impairment is calculated based on formulaic approach depending on past due payments and is established through charges to income in the form of an allowance. Increases and decreases in the allowance due to changes in the measurement of the impaired Islamic financing and investment products are included in the allowance for impairment and affect the income statement accordingly.

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

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

**(ii) Property and equipment**

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

**(iii) Classification and measurement of financial assets**

The classification and measurement of the financial assets depend on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial asset assessed. Management is satisfied that the Company's investments are appropriately classified and measured.

**5. Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, cash at banks and short term bank deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

	<b>2011</b>	<b>2010</b>
	<b>AED</b>	<b>AED</b>
Cash on hand	<b>25,000</b>	10,000
Current accounts (Note 7)	<b>18,634,712</b>	61,829,200
	<b>18,659,712</b>	61,839,200

**6. Other financial assets**

The analysis of the Company's other financial assets is as follows:

	<b>2011</b>	<b>2010</b>
	<b>AED</b>	<b>AED</b>
<b>Other financial assets</b>		
<b>(i) Other financial assets measured at FVTOCI</b>		
Investment funds (a)	<b>36,601,374</b>	33,642,632
	<b>36,601,374</b>	33,642,632
<b>(ii) Other financial assets measured at amortised costs</b>		
Sukuk (b)	<b>170,532,446</b>	175,136,674
Accrued profit from Sukuk	<b>725,728</b>	787,392
Less: Allowance for impairment	<b>(22,549,495)</b>	(19,446,569)
	<b>148,708,679</b>	156,477,497

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**6. Other financial assets (continued)**

- (a) Other financial assets measured at FVTOCI represent investments in Mashreq Al Islami Income Fund. This fund is managed by the Parent Company and has no fixed maturity or coupon rate. The fair value of these investments is based on quoted market prices.

During the year ended 31 December 2011, there were no dividends received from financial assets measured at FVTOCI.

- (b) The fair value of other financial assets measured at amortised cost amounted to AED 139 million as of 31 December 2011 (2010: AED 133 million).

*Allowance for impairment movement*

	<b>2011</b>	2010
	<b>AED</b>	AED
At 1 January	19,446,569	11,937,250
Charged during the year	3,100,000	7,088,098
Profit in suspense	2,926	421,221
	<u>22,549,495</u>	<u>19,446,569</u>
At 31 December	<u>22,549,495</u>	<u>19,446,569</u>

**7. Related party transactions**

The Company enters into transactions with the parties that fall within the definition of a related party as contained in International Accounting Standard 24: *Related Party Disclosures*. Related parties comprise companies and entities under common ownership and/or common management and key management personnel.

The nature of significant related party transactions and the amounts involved were as follows:

	<b>2011</b>	2010
	<b>AED</b>	AED
<i>Parent Company</i>		
Current accounts (Note 5)	18,634,712	61,829,200
Mudaraba (Note 8)	140,000,000	140,000,000
Accrued profit from Mudaraba (Note 8)	353,306	682,748
Due to a bank	(314,833,699)	(320,049,496)

Amounts due to a bank is unsecured and bears profit rates at the prevailing market rates, without any repayment schedule.

Letter of guarantee provided by the ultimate parent company "Mashreqbank psc" amounted to AED 200 million (2010: AED 200 million) (Note 16).

Profit for the year included significant related party transactions as follows:

	<b>2011</b>	2010
	<b>AED</b>	AED
<i>Parent Company</i>		
Income from Mudaraba	1,523,186	3,310,060
Fees and commission income	2,069,925	3,558,727

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**8. Islamic financing and investment products measured at amortised cost**

(a) The analysis of the Company's Islamic financing and investment products measured at amortised cost is as follows:

	2011 AED	2010 AED
<b><u>Financing</u></b>		
Murabaha	251,236,083	83,878,904
Ijara	216,185,350	224,673,122
	<u>467,421,433</u>	<u>308,552,026</u>
<b><u>Investment</u></b>		
Mudaraba (Note 7)	140,000,000	140,000,000
Accrued profit from Mudaraba (Note 7)	353,306	682,748
	<u>140,353,306</u>	<u>140,682,748</u>
<b>Total</b>	<b>607,774,739</b>	<b>449,234,774</b>
Less: Unearned income	(101,352,315)	(18,806,529)
Allowance for impairment	(46,286,612)	(30,900,926)
<b>Total</b>	<b>460,135,812</b>	<b>399,527,319</b>

(b) Allowance for impairment movement

	2011 AED	2010 AED
At 1 January	30,900,926	10,118,173
Charged during the year	16,791,434	16,540,686
(Reversal of)/profit in suspense	(100,726)	4,242,067
Recoveries	(1,305,022)	-
At 31 December	<u>46,286,612</u>	<u>30,900,926</u>



**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**8. Islamic financing and investment products measured at amortised cost (continued)**

- (c) In certain cases, the Company continues to carry classified doubtful financial assets and delinquent accounts on its books even after making 100% provision for impairment. Profit is recorded on accounts for litigation purposes only and accordingly profit is not accrued or taken to income statement. Receivables are written off only when all legal and other avenues for recovery or settlement are exhausted. The book value of these accounts on which profit is not taken to income statement, including fully provided accounts, amounted to AED 54.46 million at 31 December 2011 (2010: AED 44.10 million).
- (d) In determining the recoverability of Islamic financing and investment products, the Company considers any change in the credit quality of the Islamic financing and investment products measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

**9. Other receivables and assets**

	<b>2011</b>	2010
	<b>AED</b>	AED
Prepayments	<b>24,163</b>	23,733
Refundable deposits	<b>84,600</b>	-
	<hr/> <b>108,763</b> <hr/>	<hr/> 23,733 <hr/>

Notes to the financial statements  
for the year ended 31 December 2011 (continued)

10. Property and equipment

	Leasehold improvements AED	Computers, furniture and fixtures AED	Land AED	Total AED
<b>Cost</b>				
At 31 December 2009	2,660,275	1,075,288	-	3,735,563
Additions during the year	-	-	212,853,005	212,853,005
Disposals/write off	(2,660,275)	(185,040)	-	(2,845,315)
At 31 December 2010	-	890,248	212,853,005	213,743,253
At 31 December 2011	-	890,248	212,853,005	213,743,253
<b>Accumulated depreciation</b>				
At 31 December 2009	1,611,507	360,014	-	1,971,521
Charge for the year	174,922	166,341	-	341,263
Disposals/write off	(1,786,429)	(110,450)	-	(1,896,879)
At 31 December 2010	-	415,905	-	415,905
Charge for the year	-	137,427	-	137,427
At 31 December 2011	-	553,332	-	553,332
<b>Carrying amount</b>				
At 31 December 2011	-	336,916	212,853,005	213,189,921
At 31 December 2010	-	474,343	212,853,005	213,327,348

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**11. Other payables**

	2011 AED	2010 AED
Accrued expenses	135,000	107,724
Commission collected in advance	1,772,104	440,867
Other payables	4,961	1,636
	<u>1,912,065</u>	<u>550,227</u>

**12. Issued and paid up share capital**

The issued and fully paid-up capital of the Company comprises of 5,000,000 shares of AED 100 each. As at 31 December 2011 and 2010, share capital is held by the following parties:

	2011		2010	
	Number of shares	Amount AED	Number of shares	Amount AED
Mashreqbank psc – U.A.E.	4,985,000	498,500,000	4,730,000	473,000,000
Orriston Ltd. – BVI	-	-	250,000	25,000,000
Abdul Aziz Abdulla Al Ghurair	5,000	500,000	5,000	500,000
Injaz Services FZ LLC – U.A.E.	5,000	500,000	5,000	500,000
Abdulla Bin Ahmed Al Ghurair	5,000	500,000	5,000	500,000
Revenaugh Ltd. – BVI	-	-	5,000	500,000
	<u>5,000,000</u>	<u>500,000,000</u>	<u>5,000,000</u>	<u>500,000,000</u>

During the year ended 31 December 2011, Orriston Ltd., BVI and Revenaugh Ltd., BVI have transferred their shares to Mashreqbank psc, U.A.E.

**13. Statutory reserve**

In accordance with the U.A.E. Federal Commercial Companies Law number 8 of 1984, as amended, the Company has established a statutory reserve by appropriation of 10% of profit for each year until at least the reserve equals 50% of the issued and paid up share capital. This reserve is not available for distribution.

**14. Investments revaluation reserve**

Investments revaluation reserve represents accumulated gains and losses arising on the revaluation of other financial assets measured at FVTOCI.

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**15. General and administrative expenses**

	<b>2011</b>	2010
	<b>AED</b>	AED
Professional fees	617,800	979,073
Loss from disposal of property and equipment	-	924,626
Rent and utilities	40,702	557,354
Depreciation (Note 10)	137,427	341,263
Salaries and employees' benefits*	-	160,136
Stationery and related expenses	29,757	16,095
Travel expense	-	976
Insurance expenses	45,306	23,089
Foreign exchange loss	2,926	-
Other	94,332	13,725
	<u>968,250</u>	<u>3,016,337</u>

\* The Company's employees were transferred to the Parent Company during the year ended 31 December 2010.

**16. Contingencies**

	<b>2011</b>	2010
	<b>AED</b>	AED
Letter of guarantee (Note 7)	<u>200,000,000</u>	<u>200,000,000</u>

The letters of guarantee are issued by the Parent Company without any commission charges.

**17. Capital management**

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the borrowings and equity balance. The Company's overall strategy remains unchanged from the year ended 31 December 2010.

**18. Risk management**

The Parent Company sets and monitors the risk management function of the Company. The Company has risk management infrastructure supported by adoption of the best practices in the field of risk management to manage and monitor the following major risks arising out of its day to day operations:

- Credit risk management
- Liquidity risk management
- Market risk management (currency risk, profit risk and fair value of financial instruments)
- Operational risk management

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**18. Risk management (continued)**

The Parent Company's Risk Committee, Assets and Liabilities Committee (ALCO) and Investment Committee work under the mandate of the Board of Directors (BOD) to set up risk limits and manage the overall risk in the Company. These committees approve risk management policies of the Company developed by the Risk Management Group.

The Risk Committee has overall responsibility for the oversight of the risk management framework and the risk appetite of the Company. It has established detailed policies and procedures in this regard along with senior management committees to ensure adherence to the approved policies and close monitoring of different risks within the Company. In addition to setting the credit policies of the Company, the Risk Committee also establishes various concentration limits, approves policy exceptions and monitors periodic portfolio reviews to ascertain portfolio quality.

The Risk Management Group function is independent of the business and is led by a qualified Risk Management Head, with enterprise-wide responsibility for the function. The Risk Management Group is responsible for developing credit, market and operational risk policies. Experienced and trained Risk Managers have delegated authority within the risk management framework to approve credit risk transactions and monitor market and operational risks.

The Risk Management Group oversees credit, market and operational risks. Different credit underwriting procedures are followed for commercial and institutional lending, and retail lending, as described below.

**Credit risk management**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the credit worthiness of counterparties.

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

The Company seeks to manage its credit risk exposure through diversification of financing and investment activities to avoid undue concentrations of risks with individuals or Companies of customers in specific locations or businesses. It also obtains security when appropriate.

Policies relating to credit are reviewed and approved by the parent Company's Credit Policy Committee. All credit lines are approved centrally by the Company's Credit Risk Management Division in accordance with the Company's credit policy set out in the Credit Policy Manual.

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)****18. Risk management (continued)****Credit risk management (continued)*****Retail credit risk management***

Retail credit risk is managed on a product basis. Each retail credit application is considered for approval according to a product program, which is devised in accordance with guidelines set out in the product policy approved by the Parent Company's Risk Committee. The evaluation of a customer's creditworthiness is determined on the basis of statistically validated scoring models and policies.

All approval authorities are delegated by the Chief Executive Officer (the "CEO") acting on behalf of the Board of Directors. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans and credits under product programs. Each product program contains detailed credit criteria (such as customer demographics and income eligibility) and regulatory, compliance and documentation requirements, as well as other operating requirements. Credit authority levels range from Level 1 (approval of a credit application meeting all the criteria of an already approved product program) to Level 5 (the highest level where the Risk Committee approval of the specific credit application is necessary).

***Credit review procedures***

Specialists within the Audit, Review and Compliance Group undertake regular reviews of the portfolio. The focus is on testing the Risk Management Process including periodic review of retail assets portfolio quality and related provision. The specialists subject the Group's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of U.A.E. and the internal policies in order to assist in the early identification of accrual and potential performance problems, they validate the risk ratings of those clients and ensure approved credit policies, guidelines and operating procedures across the Company are implemented or highlight identified gaps in their reports.

***Receivables classification***

Impairment of retail receivables is calculated by applying a formulaic approach whereby a provision of 25% of net exposure is made when it is past due by more than 90 days, a provision of 50% of net exposure is made when it is past due by more than 120 days and less than 180 days, and a provision of 100% of net exposure is made when it is past due by more than 180 days.

***Impaired financial assets***

Impaired financial assets for which the Company determines that it is probable that it will be unable to collect all principal and profit due according to the contractual terms of the agreement(s).

***Past due but not impaired loans and other financial assets***

Past due but not impaired loans and other financial assets are those loans and other financial assets where contractual profit or principal payments are past due, but the Company believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Company.

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**18. Risk management (continued)**

**Credit risk management (continued)**

***Allowances for impairment***

The Company establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective impairment allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

The Company also complies with International Accounting Standards 39 (IAS 39) and International Financial Reporting Standards 9 (IFRS 9) in accordance with which it assesses the need for any impairment losses on its loans portfolio by calculating the net present value using the original effective profit rate of the expected future cash flows for each loan or its recoverability based on either collateral value or the market value of the asset where such price is available. As required by Central Bank of the U.A.E. guidelines, the Company takes the higher of the loan loss provisions required under IAS 39, IFRS 9 and Central Bank regulations.

Set out below is an analysis of certain financial assets by risk grade.

	Other financial assets measured at amortised cost		Islamic financing and investment products	
	2011 AED	2010 AED	2011 AED	2010 AED
<b>Impaired</b>				
Substandard	-	-	1,855,810	3,289,294
Doubtful	23,874,500	23,874,500	7,152,370	3,824,697
Loss	-	-	45,448,870	36,981,428
<b>Gross amount</b>	<b>23,874,500</b>	<b>23,874,500</b>	<b>54,457,050</b>	<b>44,095,419</b>
Specific allowance for impairment	(22,549,495)	(19,446,569)	(39,586,612)	(26,400,926)
	<b>1,325,005</b>	<b>4,427,931</b>	<b>14,870,438</b>	<b>17,694,493</b>
<b>Past due but not impaired</b>				
Past due beyond 30 days	-	-	1,098,874	7,091,707
	-	-	1,098,874	7,091,707
<b>Neither past due nor impaired</b>				
Gross amount	147,383,674	152,049,566	450,866,500	379,241,119
Collective allowance for impairment	-	-	(6,700,000)	(4,500,000)
<b>Carrying amount</b>	<b>148,708,679</b>	<b>156,477,497</b>	<b>460,135,812</b>	<b>399,527,319</b>

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**18. Risk management (continued)**

**Credit risk management (continued)**

***Allowances for impairment* (continued)**

Collateral against financial assets measured at amortised cost is generally held in the form of mortgage interests over vehicles and real estate properties. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a financial asset is individually assessed as impaired.

The Company holds collateral against its Islamic financing and investment products, the fair value of which as at 31 December 2011 is AED 231.57 million (2010: AED 249.82 million).

**Liquidity risk management**

Liquidity Risk is the risk that the Company will be unable to meet a financial commitment to a customer, creditor, or investor when due.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

When the Company is subject to a liquidity limit imposed by its local regulator, the Company is responsible for managing its overall liquidity within the regulatory limit in co-ordination with parent company's Central Treasury, who monitors compliance with local regulatory limits on a daily basis.

The following table summarizes the maturity profile of Company's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date:



Notes to the financial statements  
for the year ended 31 December 2011 (continued)

## 18. Risk management (continued)

## Maturities of assets and liabilities – 31 December 2011

	Within 3 months AED	Over 3 to 6 months AED	Over 6 to 12 months AED	Over 1 to 5 years AED	Over 5 years AED	Total AED
<b>Assets</b>						
Cash and cash equivalents	18,659,712	-	-	-	-	18,659,712
Other financial assets measured at FVTOCI	-	-	-	36,601,374	-	36,601,374
Islamic financing and investment products	150,106,026	9,487,113	19,002,004	281,540,669	-	460,135,812
measured at amortised cost	372,423	38,402,275	88,000,000	21,933,981	-	148,708,679
Other financial assets measured at amortised cost	108,763	-	-	-	-	108,763
Other receivables and assets	-	-	-	-	213,189,921	213,189,921
Property and equipment	-	-	-	-	-	-
<b>Total assets</b>	<b>169,246,924</b>	<b>47,889,388</b>	<b>107,002,004</b>	<b>340,076,024</b>	<b>213,189,921</b>	<b>877,404,261</b>
<b>Liabilities and shareholders' equity</b>						
Due to a bank	314,833,699	-	-	-	-	314,833,699
Other payables	1,912,065	-	-	-	-	1,912,065
Shareholders' equity	-	-	-	-	560,658,497	560,658,497
<b>Total liabilities and shareholders' equity</b>	<b>316,745,764</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>560,658,497</b>	<b>877,404,261</b>

Notes to the financial statements  
for the year ended 31 December 2011 (continued)

18 Risk management (continued)

Maturities of assets and liabilities – 31 December 2010

	Within 3 months AED	Over 3 to 6 months AED	Over 6 to 12 months AED	Over 1 to 5 years AED	Over 5 years AED	Total AED
<b>Assets</b>						
Cash and cash equivalents	61,839,200	-	-	-	-	61,839,200
Other financial assets measured at FVTOCI	-	-	-	33,642,632	-	33,642,632
Islamic financing and investment products measured at amortised cost	106,285,626	49,127,754	25,060,899	219,053,040	-	399,527,319
Other financial assets measured at amortised cost	787,392	-	-	155,690,105	-	156,477,497
Other receivables and assets	23,733	-	-	-	-	23,733
Property and equipment	-	-	-	-	213,327,348	213,327,348
<b>Total assets</b>	<b>168,935,951</b>	<b>49,127,754</b>	<b>25,060,899</b>	<b>408,385,777</b>	<b>213,327,348</b>	<b>864,837,729</b>
<b>Liabilities and shareholders' equity</b>						
Due to a bank	320,049,496	-	-	-	-	320,049,496
Other payables	550,227	-	-	-	-	550,227
Shareholders' equity	-	-	-	-	544,238,006	544,238,006
<b>Total liabilities and shareholders' equity</b>	<b>320,599,723</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>544,238,006</b>	<b>864,837,729</b>

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**18, Risk management (continued)**

**Market risk management**

Market Risk is the risk that the Company's position will be adversely affected by changes in the levels or volatilities of market factors such as profit rates, currency rates and equity prices. Market risk arises from the Company's trading and non-trading activities.

*Currency risk*

The majority of the Company's assets and liabilities are denominated in Arab Emirates Dirhams (AED) and accordingly the Company's exposure to the currency risk is very limited. Some current accounts held at banks are denominated in U.S. Dollars to which AED is pegged and accordingly currency risk is limited on U.S. Dollar currency exposures.

*Rate of return risk*

Profit rate risk, comprising market and valuation risks, are managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value. Overall pricing or rate of return risk positions are managed by the Company's assets and liabilities committee.

The Company is not significantly exposed to risk in terms of the re-pricing of its assets and liabilities since it is primarily in accordance with Islamic Shari'a.

*Fair value of financial instruments*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

The fair value of financial assets and liabilities at year-end approximate their carrying amounts in the statement of financial position.

*Fair value measurements recognised in the statement of financial position*

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

Notes to the financial statements  
for the year ended 31 December 2011 (continued)

18. Risk management (continued)

Market risk management (continued)

*Fair value of financial instruments* (continued)

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

	31 December 2011			Total AED
	Level 1 AED	Level 2 AED	Level 3 AED	
<i>Financial assets measured at fair value</i>				
Other financial assets measured at FVTOCI	36,601,374	-	-	36,601,374
	=====	=====	=====	=====

	31 December 2010			Total AED
	Level 1 AED	Level 2 AED	Level 3 AED	
<i>Financial assets measured at fair value</i>				
Other financial assets measured at FVTOCI	33,642,632	-	-	33,642,632
	=====	=====	=====	=====

There were no transfers between Level 1 and 2 during the years 2011 and 2010.

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**18 Risk management (continued)**

**Market risk management (continued)**

*Fair value of financial instruments (continued)*

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 10% increase or decrease as at 31 December 2011:

	Reflected in other comprehensive income	
	Favourable change AED	Unfavourable change AED
<b>Other financial assets measured at FVTOCI</b>	<b>3,660,137</b>	<b>(3,660,137)</b>

The following table shows the sensitivity of fair values to 10% increase or decrease as at 31 December 2010:

	Reflected in other comprehensive income	
	Favourable change AED	Unfavourable change AED
<b>Other financial assets measured at FVTOCI</b>	<b>3,364,263</b>	<b>(3,364,263)</b>

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**18. Risk management (continued)**

**Operational risk management**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events.

Operational risk is inherent in the Company's business and support activities. Operational risk can manifest itself in various ways, including errors, fraudulent acts, business interruptions, employee misdeeds, or non-compliance to contract by vendors. These events could result in financial losses and other damage to the Company, including reputational harm.

To monitor and control operational risk, the Parent Company maintains a system of comprehensive policies, procedures and a control framework designed to provide a sound and well-controlled operational environment. The goal is to keep operational risk at appropriate levels, in relation to the Company's financial strength, business characteristics, competitive environment and regulatory environment of the market in which the Company operates. Notwithstanding these control measures, the Company incurs operational losses.

The Parent Company has established an independent Operational Risk Function under the Risk Management Group; this Function has designed and implemented a detailed level Operational Risk Policy, which has since been approved by the Risk Management Committee.

The Parent Company's operational risk framework is supported by an operational risk software tool customised to meet the specific framework requirements of its entities. This helps integrate the individual components of the operational risk management framework into a unified, web-based tool and enhances the capture, reporting and analysis of operational risk data.

***Operational risk monitoring***

The Parent Company has a process for monitoring operational risk-event data, permitting analysis of errors and losses as well as trends. Such analysis is performed at business level and at each product and risk type level.

**19. Calculation of Zakat**

The ultimate responsibility to pay the Zakat rests with the shareholders of the Company.

**20. Operating lease arrangements**

	<b>2011</b>	<b>2010</b>
	<b>AED</b>	<b>AED</b>
<i>The Company as lessee:</i>		
Minimum lease payments under operating leases recognised as an expense	<b>40,702</b>	<b>557,354</b>
	<hr/>	<hr/>

The Company does not have any non-cancellable operating lease commitments over one year.

Notes to the financial statements  
for the year ended 31 December 2011 (continued)

21. Classification of financial assets and liabilities

The table below sets out the Company's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2011:

	FVTOCI AED	Amortised cost AED	Carrying amount AED
<b>Financial assets</b>			
Cash and cash equivalents	-	18,659,712	18,659,712
Other financial assets measured at FVTOCI	36,601,374	-	36,601,374
Islamic financing and investment products measured at amortised cost	-	460,135,812	460,135,812
Other financial assets measured at amortised cost	-	148,708,679	148,708,679
Other receivables and assets	-	84,600	84,600
<b>Total</b>	<b>36,601,374</b>	<b>627,588,803</b>	<b>664,190,177</b>
<b>Financial liabilities</b>			
Due to a bank	-	314,833,699	314,833,699
Other payables	-	139,961	139,961
<b>Total</b>	<b>-</b>	<b>314,973,660</b>	<b>314,973,660</b>

Notes to the financial statements  
for the year ended 31 December 2011 (continued)

21. Classification of financial assets and liabilities (continued)

The table below sets out the Company's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2010:

Financial assets	FVTOCI AED	Amortised cost AED	Carrying amount AED
Cash and cash equivalents	-	61,839,200	61,839,200
Other financial assets measured at FVTOCI	33,642,632	-	33,642,632
Islamic financing and investment products measured at amortised cost	-	399,527,319	399,527,319
Other financial assets measured at amortised cost	-	156,477,497	156,477,497
<b>Total</b>	<b>33,642,632</b>	<b>617,844,016</b>	<b>651,486,648</b>
Financial liabilities			
Due to a bank	-	320,049,496	320,049,496
Other payables	-	109,360	109,360
<b>Total</b>	<b>-</b>	<b>320,158,856</b>	<b>320,158,856</b>