SHUAA Capital PSC

CONSOLIDATED FINANCIAL STATEMENTS
AND AUDIT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

BOARD OF DIRECTORS' REPORT

Financial Results Summary

During the year 2011, the financial services industry continued to witness market disruptions and significant changes to the competitive landscape. These events led to a difficult operating environment, predominantly in the retail brokerage business. In the face of these adverse market conditions, the Company has taken a prudent approach to provisions as well as its non-core asset valuations throughout the year.

Revenues for the full year 2011 were AED 131.1 million (FY 2010: AED 176.2 million) before losses on investments in SHUAA managed funds of AED 31.8 million (FY 2010 gain on investments AED 12.2 million); total revenues were AED 99.2 million (FY 2010: AED 188.4 million). General & administrative expenses fell by AED 16.8 million to AED 209.1 million (FY 2010: AED 225.8 million). Overall for the financial year 2011 the Company had a total net loss of AED 293.8 million (FY 2010: loss of AED 223.7 million). The majority of the loss, AED 129.9 million, is directly attributable to the restructuring of brokerage operations.

SHUAA Capital has taken provisions and one off charges of AED 136.3 million, recorded losses of AED 31.8 in SHUAA managed funds as well as other AED 30.7 million in non-core investments, leading to the total loss of AED 293.8 million for the year.

The Company's balance sheet at the year-end remained strong despite the challenging market environment. Total assets were AED 1.6 billion. SHUAA had a strong cash position at year-end with AED 340.2 million at hand, down slightly on last year's position of AED 397.1 million. Total liabilities fell to AED 437.2 million from AED 447.6 million principally due to a drop in medium term debt levels. As of 31 December 2011, non-core investments stood at AED 349.2 million compared to AED 564.5 million at year-end 2010.

Rightsizing program

The Board of Directors has been working with the senior management team to position the business for the future. Cost cutting measures have kept the business well financed and in a strong position relative to its peers. However, it has been evident that with the onset of the Arab Spring in early 2011, the Company was not going to see the expected market recovery and consequently embarked on a more fundamental restructuring program. As a result, the Company accelerated cost cutting initiatives and launched a systematic rightsizing program, which has improved operational efficiency and adapted the Company's cost structure in line with market conditions.

The Board took the tough but necessary decision to exit retail brokerage and focus on providing sales and trading services to institutions, family offices and high-net-worth individuals. This entails closing down SHUAA's brokerage operations in Jordan and Egypt as well as significantly reducing the Company's presence in Abu Dhabi and Riyadh. SHUAA has taken a good-will write down at the year-end results to reflect this change. Tied to the decision to exit retail brokerage, SHUAA has also reduced its Research capabilities and will commission third party research when required in the future. Following the overall reduction in support staff and rent related expenses.

New Chairman

On 11 May 2011, the Company announced that HH Sheikh Maktoum bin Hasher Al Maktoum has been appointed Chairman. He took over from Majid Al Ghurair, who stepped down from the Board of Directors after 11 years. HH Sheikh Maktoum bin Hasher Al Maktoum is well known for his dynamic leadership, strong international business acumen and astute investments. He has a track record of successfully supporting business turnaround situations applying intense strategic thinking and critical decision making to drive results.

New CEO

On 3 October 2011, SHUAA Capital's Board of Directors named Michael Philipp as Chief Executive Officer. Michael Philipp replaced Sameer Al Ansari. Mr. Philipp has a proven track record of success and is a globally recognized leader in the investment banking and asset management industry; his extensive experience arms SHUAA Capital with an unparalleled scope of credibility and leadership.

Segmental Results

The Lending business, Gulf Finance (GFC), recorded revenues of AED 61.2 million in 2011 (FY 2010: AED 61.2 million) and a profit of AED 23.4 million in FY 2011, compared to AED 23.9 million last year. As of 31 December 2011, the loan book of GFC consisted of diversified exposure to the following sectors: Power, Oil & Gas 22%, logistics 16%, printing & media 15%, manufacturing 14% and healthcare 7%. Non-performing loans, for which interest has been suspended, were stable at AED 7.8 million, representing 1.7% of the total loan book.

The Asset management business recorded revenues of AED 23.8 million in the year under review (FY 2010: AED 31.7 million) and a profit of AED 5.2 million in FY 2011, compared to AED 1.2 million last year. The Asset Management business, which now also manages the private equity funds, continues to perform well in the prevailing markets, outperforming the peer group.

Assets under management increased to AED 850 million a 25 % increase over the AED 680 million managed as of 31 December 2010. SHUAA Asset Management has built on its success in 2010 and solidified its position as the number one performing Asset Management house in the MENA region, for the second year running. In 2011, SHUAA Asset Management had the best-performing UAE Equity Fund (Emirates Gateway Fund), the best-performing Qatar Equity Fund (Qatar Gate Fund) and generated the second highest MENA Equity Fund performance (Arab Gateway Fund).

The Investment Banking business continued to have a difficult year in line with the prevailing market conditions. The division still has a significant number of mandates and expects to be able to bring them to market as soon as the economic situation recovers. Investment Banking recorded revenues of AED 6.8 million in the year under review (FY 2010: AED 15.6 million) and a loss of AED 14.4 million in FY 2011, compared to a loss of AED 3.2 million last year.

Brokerage recorded revenues of AED 19.9 million in the year under review (FY 2010: AED 31.7 million) and a loss of AED 129.9 million in FY 2011, compared to a loss of AED 20.2 million last year. This loss included the AED 69.7 goodwill impairment charge. During the fourth quarter the Company repositioned the brokerage business to focus on providing sales and trading services to institutions, family offices and high-net-worth individuals.

Corporate recorded revenues of AED 19.4 million in the year under review (FY 2010: AED 36.1 million) before losses on investments in SHAA managed fund of AED 31.8 million (FY 2010 gains of AED 12.2 million) and a loss of AED 178.1 million in FY 2011, compared to a loss of AED 225.3 million last year. This improvement stems from a drop in total expenses.

Conclusion

SHUAA Capital has made material progress in rightsizing its cost structure during 2011. There remain opportunities for development of the Company's business model and in generating more sustainable results. The Board and senior management have set out a new strategy that has the full support of shareholders for building a client-centric organization that plays to SHUAA's strategic market advantages; namely in Asset Management, Corporate Advisory, Lending and Institutional Brokerage.

The Company has accelerated the pace and direction at which it is moving and the actions taken will enable SHUAA Capital to remain at the forefront of its chosen business lines. SHUAA has a great opportunity to emerge as a truly regional financial services provider. The Board continues to work with complete transparency on the transformation of the Company, and we will vigorously execute the strategy that will achieve our vision and generate sustainable returns for shareholders.

Maktoum H. Al Maktoum
Chairman

Michael Philipp
Chief Executive Officer and Member of the Board of Directors

12 February 2012

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INDEPENDENT AUDITOR'S REPORT

The Shareholders
SHUAA Capital PSC
Dubai
United Arab Emirates

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of **Shuaa Capital PSC** (the "Company") and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the financial statements presents fairly, in all material respects, the consolidated financial position of Shuaa Capital PSC and its subsidiaries as at December 31, 2011 and the Group's consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Other matters

The annual consolidated financial statements for the year ended 31 December 2010 were audited by another auditor whose report dated 7 February 2011 expressed an unqualified opinion.

Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Company has maintained proper books of account and the information contained in the board of directors' report relating to the consolidated financial statements is in agreement with the books. We obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984, as amended, or the Company's Articles of Association which might have a material effect on the financial position of the Company or the results of its financial performance.

Deloitte & Touche (M.E.)

SSindaha

Saba Sindaha
Partner
Registration No. 410

12 February 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2011

(Currency - Thousands of U.A.E. Dirhams)

	Notes	***31 December 2011***	*31 December 2010*
Assets			
Cash and deposits with banks	7	**340,207**	397,149
Receivables and other debit balances	8	**43,513**	39,279
Installment credits, loans and advances	9	**576,444**	605,295
Investments in SHUAA managed funds	10	**232,721**	170,431
Investments in third party associates	11	**135,526**	186,677
Other investments	12	**213,644**	377,824
Property and equipment	13	**29,927**	41,907
Goodwill	14	**34,111**	103,794
Total Assets		**1,606,093**	1,922,356
Liabilities			
Due to banks	15	**222,181**	133,931
Payables and other credit balances	16	**161,238**	169,668
Medium-term debt	17	**53,750**	143,958
Total Liabilities		**437,169**	447,557
Equity			
Share capital	18	**1,065,000**	1,065,000
Treasury shares	19	**(14,458)**	(14,458)
Employee stock option plan shares	20	**(86,603)**	(86,603)
Statutory reserve	22	**728,295**	728,295
Accumulated losses		**(530,301)**	(235,678)
Investment revaluation reserve	23	**6,803**	18,043
Translation reserve		**(217)**	(160)
Equity attributable to the shareholders of the parent		**1,168,519**	1,474,439
Non controlling interests	24	**405**	360
Total Equity		**1,168,924**	1,474,799
Total Liabilities and Equity		**1,606,093**	1,922,356

The consolidated financial statements from page 5 to 42 were approved by the Directors and authorised for issue on 12 February 2012.

Maktoum H. Al Maktoum
Chairman

Michael Philipp
Chief Executive Officer and Member of the Board of Directors

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2011

(Currency - Thousands of U.A.E. Dirhams)

	Notes	***1 October to 31 December 2011 (3 months) Unaudited***	***1 January to 31 December 2011 (12 months) Audited***	*1 October to 31 December 2010 (3 months) Unaudited*	*1 January to 31 December 2010 (12 months) Audited*
Interest income		**22,652**	**81,694**	19,415	86,721
Net fees and commissions	25	**9,864**	**49,098**	14,269	86,981
Trading income		**(128)**	**297**	540	2,538
(Losses)/gains from investments in SHUAA managed funds	26	**(12,289)**	**(31,819)**	8,543	12,199
Total revenues		**20,099**	**99,270**	42,767	188,439
General and administrative expenses	27	**(46,518)**	**(209,061)**	(59,832)	(225,828)
Interest expense		**(4,435)**	**(16,171)**	(5,753)	(33,290)
Depreciation	13	**(6,575)**	**(14,860)**	(2,989)	(11,933)
Provisions	28	**(12,051)**	**(52,526)**	(40,252)	(42,135)
Goodwill impairment	14	**(69,683)**	**(69,683)**	(39,245)	(39,245)
Total expenses		**(139,262)**	**(362,301)**	(148,071)	(352,431)
Net loss before losses from other investments		**(119,163)**	**(263,031)**	(105,304)	(163,992)
Gains/(losses) from other investments, including investments in third party associates	29	**7,320**	**(30,719)**	(81,380)	(59,694)
Loss for the period / year		**(111,843)**	**(293,750)**	(186,684)	(223,686)
Attributable to:					
Non controlling interests		**23**	**46**	(27)	(82)
Equity holders of the parent		**(111,866)**	**(293,796)**	(186,657)	(223,604)
Loss per share (in AED)	30	**(0.105)**	**(0.277)**	(0.176)	(0.211)

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

(Currency - Thousands of U.A.E. Dirhams)

	1 October to 31 December 2011 (3 months) Unaudited	***1 January to 31 December 2011 (12 months) Audited***	*1 October to 31 December 2010 (3 months) Unaudited*	*1 January to 31 December 2010 (12 months) Audited*
Loss for the period/year	**(111,843)**	**(293,750)**	(186,684)	(223,686)
Other comprehensive income				
Net revaluation reserve movement on:				
- Investments in SHUAA managed funds	**-**	**(271)**	(607)	10,040
- Other investments	**(11,061)**	**(8,009)**	(19,176)	11,429
Share of other comprehensive income of associates	**525**	**(2,959)**	3,772	5,549
Exchange differences on translation of foreign operations	**(18)**	**(58)**	(78)	(6,011)
Other comprehensive income for the period/year	**(10,554)**	**(11,297)**	(16,089)	21,007
Total comprehensive loss for the period/year	**(122,397)**	**(305,047)**	(202,773)	(202,679)
Attributable to:				
Non controlling interests	**23**	**45**	(32)	(89)
Equity holders of the parent	**(122,420)**	**(305,092)**	(202,741)	(202,590)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2011

(Currency - Thousands of U.A.E. Dirhams)

	1 January to 31 December 2011	*1 January to 31 December 2010*
Operating activities		
Loss for the year	**(293,750)**	(223,686)
Adjustments:		
Depreciation	**14,860**	11,933
Unrealised loss/(gain) on investments in SHUAA managed funds	**31,819**	(11,104)
Income from other investments	**35,986**	88,756
Share based payments	**(828)**	270
Goodwill impairment	**69,683**	39,245
Provisions	**52,526**	35,316
Operating loss before changes in operating assets and liabilities	**(89,704)**	(59,270)
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables and other debit balances	**(11,337)**	12,836
(Increase)/decrease in installment credits, loans and advances	**(11,523)**	198,810
Decrease in payables and other credit balances	**(13,478)**	(32,352)
Net (acquisition)/sale of SHUAA managed funds	**(94,380)**	27,586
Net cash (used in)/from operating activities	**(220,422)**	147,610
Investing activities		
Net proceeds from other investments/associates	**166,368**	430,348
Dividends received	**2,000**	28,275
Addition to investment in subsidiaries/Non controlling interests	**-**	(34,907)
Net purchase of property and equipment	**(2,880)**	(8,640)
Net cash from investing activities	**165,488**	415,076
Financing activities		
Interest on convertible bond	**-**	(45,000)
Increase/(decrease) in medium term debt	**16,459**	(48,941)
Decrease in amounts due to banks	**(18,417)**	(356,432)
Decrease in amounts due to others	**-**	(239,160)
Movement in employee stock option plan shares	**-**	(19,233)
Net cash used in financing activities	**(1,958)**	(708,766)
Decrease in cash and cash equivalents	**(56,892)**	(146,080)
Foreign currency translation	**(50)**	(230)
Cash and cash equivalents at beginning of the year	**397,149**	543,459
Cash and cash equivalents at end of the year	**340,207**	397,149
Operational cash flows from interest and dividend		
Interest received	**76,311**	87,108
Interest paid	**(14,666)**	(34,645)
Dividend received	**460**	1,094

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

(Currency - Thousands of U.A.E. Dirhams)

	Equity attributable to shareholders of the Parent									
	Share capital	*Treasury shares*	*Employee stock option plan shares*	*Statutory reserve*	*Accumulated losses*	*Investment revaluation reserve*	*Translation reserve*	*Total*	*Non controlling interest*	*Total*
Balance as of 1 January 2010	**1,065,000**	**(14,458)**	**(78,196)**	**1,714,140**	**(985,845)**	**(8,982)**	**5,851**	**1,697,510**	**449**	**1,697,959**
Total comprehensive loss for the year	-	-	-	-	(223,604)	27,025	(6,011)	(202,590)	(89)	(202,679)
Directors' remuneration	-	-	-	-	138	-	-	138	-	138
Operational reserves	-	-	-	-	(1,656)	-	-	(1,656)	-	(1,656)
Accumulated losses offset	-	-	-	(985,845)	985,845	-	-	-	-	-
Net movement in employee stock option plan shares	-	-	(8,407)	-	(10,826)	-	-	(19,233)	-	(19,233)
Share based payments charge (note 21)	-	-	-	-	270	-	-	270	-	270
Balance as of 31 December 2010	**1,065,000**	**(14,458)**	**(86,603)**	**728,295**	**(235,678)**	**18,043**	**(160)**	**1,474,439**	**360**	**1,474,799**

	Equity attributable to shareholders of the Parent									
	Share capital	*Treasury shares*	*Employee stock option plan shares*	*Statutory reserve*	*Accumulated losses*	*Investment revaluation reserve*	*Translation reserve*	*Total*	*Non controlling interest*	*Total*
Balance as of 1 January 2011	**1,065,000**	**(14,458)**	**(86,603)**	**728,295**	**(235,678)**	**18,043**	**(160)**	**1,474,439**	**360**	**1,474,799**
Total comprehensive loss for the year	-	-	-	-	(293,795)	(11,240)	(57)	(305,092)	45	(305,047)
Share based payments charge (note 21)	-	-	-	-	(828)	-	-	(828)	-	(828)
Balance as of 31 December 2011	**1,065,000**	**(14,458)**	**(86,603)**	**728,295**	**(530,301)**	**6,803**	**(217)**	**1,168,519**	**405**	**1,168,924**

The attached notes 1 to 34 form an integral part of these consolidated financial statements.

(Currency - Thousands of U.A.E. Dirhams)

1. LEGAL STATUS AND ACTIVITIES

SHUAA Capital psc (the 'Company') is a public shareholding company established in Dubai, United Arab Emirates, pursuant to Emiri Decree No. 6 of 25 April 1979 and in accordance with the Federal Law No. (8) of 1984 (as amended). The registered address of the Company is P.O. Box 31045, Dubai, United Arab Emirates. The Company's shares are traded on the Dubai Financial Market in the United Arab Emirates.

The Company is licensed by the Central Bank of the United Arab Emirates to conduct services as a financial investment company and a banking, finance and investment advisor pursuant to Central Bank Board of Directors Resolution 164/8/94 and as a financial and monetary intermediary pursuant to Central Bank Board of Directors Resolution 126/5/95.

The Company and its subsidiaries ("the Group") conduct a diversified range of investment and financial service activities strategy with special emphasis on the Arab region in general, the U.A.E. and G.C.C. markets in particular and is actively involved in public and private capital markets in the region.

Details of the Company's material subsidiaries as at 31 December 2011 are as follows:

Name	**Country of incorporation**	**Principle activities**	**Holding** ***31 December 2011***	Holding *31 December 2010*
Gulf Finance Corporation PJSC	United Arab Emirates	Financing	**100.0%**	100.0%
SHUAA Capital International Limited	United Arab Emirates	Brokerage	**100.0%**	100.0%
SHUAA Partners Limited	United Arab Emirates	Private Equity	**100.0%**	100.0%
SHUAA Securities LLC	United Arab Emirates	Brokerage	**100.0%**	100.0%
SHUAA Capital Saudi Arabia CJSC	Saudi Arabia	Financial services	**99.6%**	99.6%
Nile One Limited	Egypt	Brokerage	**100.0%**	100.0%
Asia Brokers Limited	Jordan	Brokerage	**94.3%**	94.3%

2. APPLICATION OF NEW AND REVISED IFRS

Relevant new and revised IFRSs applied with no material effect on the consolidated financial statements
The following new and revised IFRSs have been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

IFRS 3	*Business Combinations*
Amendments to IAS 24	*Related Party Disclosures*
Improvements to IFRSs issued in 2010	

All other new and revised IFRSs that become effective during the current financial year, are irrelevant to the Group.

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

Amendments to IFRS 7	*Disclosures – Transfers of Financial Assets*[1]
IFRS 9	*Financial Instruments*[2]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 13	*Fair Value Measurement*[2]
IAS 19 (as revised in 2011)	*Employee Benefits*[2]
IAS 27 (as revised in 2011)	*Separate Financial Statements*[2]
IAS 28 (as revised in 2011)	*Investments in Associates and Joint Ventures*[2]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2015.

The Group anticipates that these new standards will be adopted in the Group's consolidated financial statements in the year of initial application and that the application of such standards may have significant impact on amounts reported in respect of the Group's statements. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

(Currency - Thousands of U.A.E. Dirhams)

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and applicable provisions of Federal Law No 8 of 1984 (as amended) of United Arab Emirates Laws.

Basis of preparation
The consolidated financial statements are prepared under the historical cost convention as modified for the measurement at fair value of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the parent company and its subsidiaries (the "Group"). The results of these subsidiaries are included in the consolidated statement of income from the effective date of formation or acquisition up to the effective date of disposal. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. All significant inter-company balances, transactions and profits have been eliminated upon consolidation.

Non controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from equity attributable to the shareholders of the parent.

Trade date accounting
All "regular way" sales and purchases of financial assets are recognised on the "trade date", the date that the entity commits to sell or purchase the asset. Regular way sales or purchases are sales or purchases of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest 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 interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income or expense is recognised on an effective interest basis for debt instruments other than those financial instruments classified as held for trading.

Financial assets

The Group classifies its financial assets at initial recognition in the following categories:

- Held for trading investments
- Investment securities designated at fair value through profit and loss
- Installment credits, loans and advances
- Held to maturity investments
- Available for sale investments

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition

Held for trading investments and investment securities designated at fair value through profit and loss
These represent investments acquired or incurred principally for the purpose of generating profit from short term fluctuations in price. The fair value of the investments under this classification can be reliably measured and gains and losses arising from changes in fair values are included in the consolidated statement of income in the period in which they arise.

These investments are initially recognised at cost, being the fair value of the consideration given, excluding all acquisition costs associated with the investment.

After initial recognition, investments held for trading are measured at fair value. The fair value of securities traded in recognised financial markets is their quoted price. For securities where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument that is substantially the same or is based on discounted cash flow analysis, option pricing models or other reliable valuation methods.

Any gain or loss arising from a change in the fair value of these investments is recognised in the consolidated statement of income for the period in which it arises. Dividend, interest and other revenues generated from these investments are included in the consolidated statement of income.

(Currency - Thousands of U.A.E. Dirhams)

3. SIGNIFICANT ACCOUNITNG POLICIES - continued

Installment credits, loans and advances
Instruments that are non derivative financial assets with fixed or determinable payments and that are not quoted in an active market are designated as installment credits, loans and advances. These are measured at amortised cost using the effective interest method, less any provision for impairment. The Group has a policy of establishing specific provisions against installment credits and loans and advances to customers, where management considers the recovery of the balance to be doubtful. Installment credits, loans and advances are only written off after all practical means of pursuing recovery have been exhausted.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the reporting date. These are estimated based upon historical patterns of losses in each component and reflecting the current economic climate in which the borrowers operate.

Held to maturity investments
Investments classified as held to maturity are non derivative financial assets with fixed or determinable payments and fixed maturity that Group has the positive intent and ability to hold to maturity. They are carried at amortised cost using the effective interest method, less provision for impairment.

Available for sale investments
Available for sale financial assets are non derivatives that are either designated in this category or not classified as held for trading, installment credits, loans and advances or held to maturity investments. After initial recognition, investments available for sale are measured at fair value. For investments actively traded in organised financial markets, fair value is generally determined by reference to stock exchange quoted price at the close of business on the reporting date, adjusted for illiquidity constraints and other costs necessary to realise the asset's value.

Where the investments are not traded in an active market, traded in small volumes, or where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument that is substantially the same or is based on earnings factors, projected cash flows and a valuation multiple that considers comparable indicators used in recent mergers and acquisitions, or the projected sale value of the investment if negotiations are currently in progress. Investments whose fair value cannot be reliably measured are carried at cost less any provision for impairment.

Gains or losses arising from a change in the fair value of investments available for sale are recognised in other comprehensive income under the heading of 'investment revaluation reserve'. When the investment is derecognised or determined to be impaired, the accumulated amount in the investment revaluation reserve is reclassified to the consolidated statement of income.

Reversals of previously recognised impairment losses are not initially recorded through the consolidated statement of income but as an increase in the investment revaluation reserve pending realisation.

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in consolidated statement of income.

Financial liabilities
The Group classifies its financial liabilities at initial recognition as other financial liabilities.

Other financial liabilities
These include medium term debt and payables and other credit balances and are subsequently measured at amortised cost using the effective interest method.

(Currency - Thousands of U.A.E. Dirhams)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial guarantee contracts
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group'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 is recognised in the consolidated statement of income.

Investment in associates
The Group's investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy discussions of the investee but is not control or joint control over those policies. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

Goodwill
Business combinations are accounted for using the acquisition method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Goodwill is initially recognised at its cost, being the excess of the cost of the acquisition over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

(Currency - Thousands of U.A.E. Dirhams)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognised to write-off the cost or valuation of assets (other than land) less their residual values over their useful lives, using the straight line method. The estimated useful lives, residual lives and depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis. Depreciation is provided on a straight-line basis over the assets' estimated useful lives over the following periods:

Furniture and leasehold improvements	1-5 years
Office equipment and computers	3 years
Motor vehicles	4 years
Buildings	40 years

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any 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 consolidated statement of income.

Impairment of non-financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the consolidated statement of income.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset’s or cash-generating unit’s recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income.

Impairment losses relating to goodwill cannot be reversed in future periods.

Income recognition
Interest income, as well as fees which are considered an integral part of the effective yield of a financial asset, are recognised using the effective interest method, unless recoverability is in doubt. The recognition of interest income is suspended when financial assets become impaired.

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When 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 the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a 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.

(Currency - Thousands of U.A.E. Dirhams)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Share-based payment transactions
Certain employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

Equity –settled transactions
The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model, further details of which are given in note 21.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of income charge or credit for a period is recorded in "employee salaries and fringe benefits" and represents the movement in the cumulative expense recognised at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest.

Employees' end of service benefits
The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final 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.

With respect to its national employees, the Company contributes to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security. The Company's obligations are limited to these contributions, which are expensed when due.

Foreign currency translation
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the respective entities operate ("the functional currency"). The consolidated financial statements are presented in UAE Dirhams which is the Company's functional and presentational currency.

Monetary assets and liabilities held at the reporting date and denominated in foreign currencies are translated into the functional currency at exchange rates prevailing as at the reporting date. The resulting exchange differences are taken to the consolidated statement of income.

On consolidation, assets and liabilities of subsidiaries are translated at rates of exchange prevailing as at the reporting date and the results of their operations are translated at the average rates of exchange for the year. The exchange differences arising on consolidation and equity accounting are taken to other comprehensive income (attributed to non controlling interests as appropriate).

On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income and accumulated in the separate component of equity relating to that particular foreign operation is recognised in the consolidated statement of income as part of the gain or loss on sale.

Cash and cash equivalents
Cash and cash equivalents for the purposes of the consolidated statement of cash flows consist of cash and short term deposits maturing within 90 days or less.

Treasury shares
Own equity instruments which are acquired (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognised in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(Currency - Thousands of U.A.E. Dirhams)

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, 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.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Going concern
Management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Classification of financial assets
The classification of financial assets, in the categories described in the significant accounting policies note, depends on the nature and purpose of the financial assets and is determined at the time of initial recognition requiring the exercise of judgment by the management.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the statement of consolidated financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Impairment losses on installment credits, loans and advances
The Group reviews its installment credits, loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant balances, the Group also makes a collective impairment allowance against exposure (incorporating relevant requirements of the UAE Central Bank) which, although not specifically identified as requiring a specific allowance, has a greater risk of default than when originally granted.

Impairment of available for sale investments
The Group assesses at each reporting date whether there is objective evidence that an individual or a group of available for sale investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income – is removed from equity and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Subsequent increases in their fair value after impairment are recognised in other comprehensive income under the heading of 'investments revaluation reserve'.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of interest income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

(Currency - Thousands of U.A.E. Dirhams)

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Key sources of estimation uncertainty

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

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
- Other valuation models

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

Impairment of goodwill
Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

(Currency - Thousands of U.A.E. Dirhams)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial assets recorded at fair value by level of the fair value hierarchy:

	31 December 2011			
	Level 1	***Level 2***	***Level 3***	***Total***
Investments in SHUAA managed funds				
Held at fair value through profit and loss	-	**153,513**	-	**153,513**
Available for sale	-	**12,778**	-	**12,778**
Other investments				
Held at fair value through profit and loss	**73,880**	**9,297**	**14,381**	**97,558**
Available for sale	**9,181**	**10,432**	**88,954**	**108,567**
	83,061	**186,020**	**103,335**	**372,416**

	31 December 2010			
	Level 1	*Level 2*	*Level 3*	*Total*
Investments in SHUAA managed funds				
Held at fair value through profit and loss	-	88,683	-	88,683
Available for sale	-	-	16,306	16,306
Other investments				
Held at fair value through profit and loss	29,124	114,299	13,051	156,474
Available for sale	34,184	15,427	90,822	140,433
	63,308	218,409	120,179	401,896

Financial assets recorded at fair value:
The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Held at fair value through profit and loss
Held at fair value through profit and loss investments are valued using market prices in active markets or valuation techniques which incorporate data which is both observable and non-observable. This category includes quoted funds and unquoted private equity funds which invest in underlying assets which are in turn valued based on both observable and non-observable data. Observable inputs include market prices (from active markets), foreign exchange rates and movements in stock market indices. Unobservable inputs include assumptions regarding expected future financial performance, discount rates and market liquidity discounts.

Investments available for sale
Available for sale financial assets are valued using quoted prices in active markets, valuation techniques or pricing models and consist of quoted equities, unquoted equities and unquoted private equity funds. These assets are valued using models which incorporate data which is both observable and non-observable. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Transfers between level 1 and level 2
During the year there were no transfers between level 1 and level 2 of the fair value hierarchy for financial assets which are recorded at fair value.

(Currency - Thousands of U.A.E. Dirhams)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS - continued

Movements in level 3 financial assets measured at fair value
During the year, the Group transferred a financial instrument from level 3 to level 2 of the fair value hierarchy. The carrying amount of the asset transferred is 12,779. The reason for the transfer from level 3 to level 2 was that observable market data, used for the valuation of the asset, became available.

The Group also transferred a financial instrument from level 2 to level 3 of the fair value hierarchy. The carrying amount of the asset transferred was 11,790. The reason for the transfer was the absence of observable market data.

The following table shows a reconciliation of the opening and closing balance of level 3 financial assets which are recorded at fair value:

	31 December 2011						
	Balance at 1 January 2011	***Gain/(loss) through P&L***	***Gain/(loss) through OCI***	***Purchases***	***Sales***	***Transfers from/(to) levels 1 &2***	***Balance at 31 December 2011***
Investments in SHUAA managed funds							
Available for sale	**16,306**	**(3,256)**	**(271)**	**-**	**-**	**(12,779)**	**-**
Other investments							
Held at FVTPL	**13,051**	**9,484**	**-**	**-**	**(19,944)**	**11,790**	**14,381**
Available for sale	**90,822**	**(7,740)**	**(983)**	**11,434**	**(4,579)**	**-**	**88,954**
	120,179	**(1,512)**	**(1,254)**	**11,434**	**(24,523)**	**(989)**	**103,335**

	31 December 2010						
	Balance at 1 January 2010	*Gain/(loss) through P&L*	*Gain/(loss) through OCI*	*Purchases*	*Sales*	*Transfers from/(to) levels 1 &2*	*Balance at 31 December 2010*
Investments in SHUAA managed funds							
Available for sale	45,352	(8,273)	11,680	-	(32,453)	-	16,306
Other investments							
Held at FVTPL	196,063	(7,957)	-	-	(97,936)	(77,119)	13,051
Available for sale	130,368	(12,717)	9,457	8,407	(44,693)	-	90,822
	371,783	(28,947)	21,137	8,407	(175,082)	(77,119)	120,179

Gains and losses on level 3 financial instruments included in the consolidated statement of income for the year are detailed as follows:

	31 December 2011	*31 December 2010*
Investments in SHUAA managed funds		
Realised losses	-	(8,273)
Other investments		
Realised gains/(losses)	**11,040**	(12,055)
Unrealised losses	**(9,296)**	(8,613)
	1,744	(28,941)

(Currency - Thousands of U.A.E. Dirhams)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS - continued

Impact on fair value of level 3 financial assets measured at fair value of changes to key assumptions
The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument:

	31 December 2011		*31 December 2010*	
	Carrying amount	***Effect of reasonably possible alternative assumptions***	*Carrying amount*	*Effect of reasonably possible alternative assumptions*
Investments in SHUAA managed funds				
Available for sale	**-**	**-**	16,306	3,261
Other investments				
Held at fair value through profit and loss	**14,381**	**3,595**	13,051	3,263
Available for sale	**88,954**	**17,791**	90,822	18,164
	103,335	**21,386**	120,179	24,688

In order to determine reasonably possible alternative assumptions the Group adjusted key unobservable models inputs as follows:

- For debt securities, the Group adjusted the probability of default and loss given default assumptions by increasing and decreasing the fair value of the instrument by 25%.
- For fund investments, the Group adjusted the liquidity discount rate assumptions used in the valuation model within a range of reasonably possible alternatives. The extent of the adjustment varied according to the characteristics of each investment.

The fair values of the Group's financial instruments are not materially different from their carrying values.

(Currency - Thousands of U.A.E. Dirhams)

6. FINANCIAL RISK MANAGEMENT

Introduction
The inherent risk relating to the Group's activities is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Group is exposed to credit risk, liquidity risk, market risk (comprising, interest rate risk, foreign exchange risk, and equity price risk) and subject to operational risk.

Risk management structure
The Board of Directors is ultimately responsible for identifying and controlling risk relating to the Group's activities and recognises the importance of managing risk in line with shareholder risk appetite.

Authority to set Group-wide rules to manage credit, liquidity and market risk are delegated to the Governance Committees of the Group and to each subsidiary. However, enterprise wide risk is monitored by the Group Risk Committee which ensures that Group rules are adhered to.

Credit risk
Credit risk, or the risk of loss due to default on payment, is controlled by the application of credit approvals and monitoring procedures. Rules to limit exposure to credit risk are set by the Board of Directors and authority is delegated to the Governance Committees to set rules by business and strategy. On a daily basis, the overall limits, authorisation, concentration and collateral requirements are independently monitored and managed by Group Risk Management.

The Group Risk Committee regularly reviews the status of receivables and exposures and provisions and mitigation steps are approved for any balances considered doubtful.

Maximum exposure to credit risk
The maximum exposure to credit risk for the components of the consolidated statement of financial position, before considering collateral or other credit enhancement, is shown below:

	Gross maximum exposure 31 Dec 2011	*Gross maximum exposure 31 Dec 2010*
Cash and deposits with banks	**340,207**	397,149
Receivables and other debit balances	**43,513**	39,279
Installment credits, loans and advances	**576,444**	605,295
Other investments		
Held at fair value through profit and loss	**72,322**	24,841
Investments held to maturity	**7,519**	80,917
	1,040,005	1,147,481
Contingent liabilities	**35,474**	45,094
Commitments	**130,031**	162,790
	165,505	207,884
Total credit risk exposure	**1,205,510**	1,355,365

The Group does not have significant credit risk exposure to any single counterparty or group of counterparties that have similar credit risk.

(Currency - Thousands of U.A.E. Dirhams)

6. FINANCIAL RISK MANAGEMENT - continued

The Group's assets, before considering collateral held or other credit enhancements can be analysed by the following geographical regions:

	UAE	GCC Other	MENA Other	North America	Europe	Asia Other	Total
Cash and deposits with banks	**284,773**	**23,441**	**18,448**	**12,442**	**1,103**	**-**	**340,207**
Receivables and other debit balances	**23,399**	**16,585**	**3,225**	**9**	**295**	**-**	**43,513**
Installment credits, loans and advances	**520,390**	**36,602**	**19,452**	**-**	**-**	**-**	**576,444**
Investments in SHUAA managed funds	**37,551**	**191,464**	**3,706**	**-**	**-**	**-**	**232,721**
Investments in third party associates	**63,179**	**72,347**	**-**	**-**	**-**	**-**	**135,526**
Other investments	**51,598**	**71,887**	**3,811**	**3,511**	**5,762**	**77,075**	**213,644**
Property and equipment	**25,414**	**3,289**	**1,224**	**-**	**-**	**-**	**29,927**
Goodwill	**34,111**	**-**	**-**	**-**	**-**	**-**	**34,111**
Total Assets - 31 December 2011	**1,040,415**	**415,615**	**49,866**	**15,962**	**7,160**	**77,075**	**1,606,093**
Total Assets - 31 December 2010	1,269,289	423,385	90,396	19,454	16,787	103,045	1,922,356

Collateral and other credit enhancements
The amount and type of collateral depends on an assessment of the credit risk of the counterparty. Collaterals mainly include cash, liquid securities, mortgages on vehicles and private equity holdings.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

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.

	31 December 2011				
	Neither past due nor impaired			**Past due or individually impaired**	**Grand Total**
	High grade	**Standard grade**	**Total**		
Cash and deposits with banks	**340,207**	**-**	**340,207**	**-**	**340,207**
Receivables and other debit balances	**-**	**43,513**	**43,513**	**-**	**43,513**
Installment credits, loans and advances	**-**	**493,597**	**493,597**	**202,441**	**696,038**
Other investments	**-**	**57,942**	**57,942**	**21,899**	**79,841**
	340,207	**595,052**	**935,259**	**224,340**	**1,159,599**

	31 December 2010				
	Neither past due nor impaired			Past due or individually impaired	Grand Total
	High grade	Standard grade	Total		
Cash and deposits with banks	397,149	-	397,149	-	397,149
Receivables and other debit balances	-	39,279	39,279	-	39,279
Installment credits, loans and advances	-	480,960	480,960	213,752	694,712
Other investments	-	73,398	73,398	32,360	105,758
	397,149	593,637	990,786	246,112	1,236,898

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly. High grade assets represent all cash assets and standard grade are assets which have not defaulted during the term of the facility.

(Currency - Thousands of U.A.E. Dirhams)

6. FINANCIAL RISK MANAGEMENT - continued

Ageing analysis of past due but not impaired loans per class of financial assets is shown below:

	31 December 2011				
	Less than 31 days	***31 to 90 days***	***91 to 180 days***	***More than 180 days***	***Total***
Installment credits, loans and advances	**19,293**	**2,123**	**3,946**	**27,336**	**52,698**

	31 December 2010				
	Less than 31 days	*31 to 90 days*	*91 to 180 days*	*More than 180 days*	*Total*
Installment credits, loans and advances	12,554	24,102	9,847	30,701	77,204

Details of individually impaired exposures, net of related impairment provisions are shown below:

	31 December 2011	*31 December 2010*
Gross exposures	**149,743**	136,548
Provision for impairment	**(97,089)**	(57,873)
Net exposure	**52,654**	78,675

Specific impairment is assessed when there is a significant deterioration in the credit quality of the exposure. The net exposure above is fully covered with the value of collaterals held by the Group.

Liquidity risk
Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, managed assets with liquidity in mind and monitored liquidity on a daily basis.

The Group’s approach aims to always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses and without materially affecting the return on capital. The Group Assets and Liabilities Committee sets minimum liquidity ratios and cash balance requirements. The Group collates the projected cash flow and liquidity profiles of its financial assets and financial liabilities. It maintains a portfolio of short-term liquid assets to cover requirements, largely consisting of short-term liquid placements with financial institutions.

The three primary measures of liquidity used by the Group are, stock of liquid assets, surplus cash capital and net funding requirement. Liquid assets include cash and cash equivalents and other short term financial assets. Cash capital is defined as the aggregate of the Group's capital base, intra-group liabilities maturing later than 12 months and any undrawn committed facilities by the Group. Cash capital is used to fund long term funding requirements including investment in associates, investment securities and property and equipment**.** Net funding requirement is the liquid assets necessary to fund the cash obligations and commitments.

The maturity profile of assets and liabilities as of 31 December 2011, determined on the basis of the remaining contractual maturity is as follows. Where assets have no contractual maturity date (*) management have made an estimate of the maturity date based on the liquidity of the asset and their intention.

(Currency - Thousands of U.A.E. Dirhams)

6. FINANCIAL RISK MANAGEMENT - continued

	Less than 3 Months	*3-12 Months*	*Sub total Less than a year*	*1-5 Years*	*Over 5 years*	*Grand total*
Cash and deposits with banks	318,707	21,500	**340,207**	**-**	**-**	**340,207**
Receivables and other debit balances	27,505	13,565	**41,070**	**2,443**	**-**	**43,513**
Installment credits, loans and advances	185,371	132,174	**317,545**	**258,899**	**-**	**576,444**
Investments in SHUAA managed funds*	18,824	16,484	**35,308**	**197,413**	**-**	**232,721**
Investments in third party associates*	-	135,526	**135,526**	**-**	**-**	**135,526**
Other investments*	83,014	77,109	**160,123**	**53,521**	**-**	**213,644**
Property and equipment*	-	-	**-**	**29,927**	**-**	**29,927**
Goodwill*	-	-	**-**	**-**	**34,111**	**34,111**
Total Assets	633,421	396,358	**1,029,779**	**542,203**	**34,111**	**1,606,093**
Due to banks	98,952	123,229	**222,181**	**-**	**-**	**222,181**
Payables and other credit balances	129,746	20,507	**150,253**	**10,985**	**-**	**161,238**
Medium-term debt	-	-	**-**	**53,750**	**-**	**53,750**
Equity	-	-	**-**	**-**	**1,168,924**	**1,168,924**
Total Liabilities and Equity	228,698	143,736	**372,434**	**64,735**	**1,168,924**	**1,606,093**
Net liquidity gap	404,723	252,622	**657,345**	**477,468**	**(1,134,813)**	**-**
Cumulative liquidity gap	404,723	657,345	**657,345**	**1,134,813**	**-**	

The maturity profile of assets and liabilities as of 31 December 2010 was as follows:

	Less than 3 Months	*3-12 Months*	*Sub total Less than a year*	*1-5 Years*	*Over 5 years*	*Grand total*
Cash and deposits with banks	354,052	43,097	397,149	-	-	397,149
Receivables and other debit balances	9,950	27,462	37,412	1,867	-	39,279
Installment credits, loans and advances	315,230	190,048	505,278	100,017	-	605,295
Investments in SHUAA managed funds*	-	16,306	16,306	154,125	-	170,431
Investments in third party associates*	-	156,697	156,697	29,980	-	186,677
Other investments*	107,628	96,609	204,237	173,587	-	377,824
Property and equipment*	-	-	-	41,907	-	41,907
Goodwill*	-	-	-	-	103,794	103,794
Total Assets	786,860	530,219	1,317,079	501,483	103,794	1,922,356
Due to banks	30,388	103,543	133,931	-	-	133,931
Payables and other credit balances	120,663	34,625	155,288	14,380	-	169,668
Medium-term debt	-	-	-	143,958	-	143,958
Equity	-	-	-	-	1,474,799	1,474,799
Total Liabilities and Equity	151,051	138,168	289,219	158,338	1,474,799	1,922,356
Net liquidity gap	635,809	392,051	1,027,860	343,145	(1,371,005)	-
Cumulative liquidity gap	635,809	1,027,860	1,027,860	1,371,005	-	

(Currency - Thousands of U.A.E. Dirhams)

6. FINANCIAL RISK MANAGEMENT - continued

The Group's contractual undiscounted repayment obligations on interest bearing financial liabilities are as follows:

	31 December 2011			
	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Total***
Due to banks	**101,501**	**126,111**	**-**	**227,612**
Medium term debt	**-**	**-**	**59,146**	**59,146**
Total	**101,501**	**126,111**	**59,146**	**286,758**

	31 December 2010			
	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Total*
Due to banks	30,686	107,131	-	137,817
Trade and other credit payables	-	6,070	-	6,070
Medium term debt	-	-	157,470	157,470
Total	30,686	113,201	157,470	301,357

Contractual expiry by maturity of the Group's contingent liabilities and commitments are shown below:

	31 December 2011				
	Less than 3 months	***3-12 Months***	***1 to 5 years***	***Over 5 years***	***Total***
Contingent liabilities	**9,657**	**25,817**	**-**	**-**	**35,474**
Commitments	**30,111**	**40,223**	**59,697**	**-**	**130,031**
Total	**39,768**	**66,040**	**59,697**	**-**	**165,505**

	31 December 2010				
	Less than 3 months	*3-12 Months*	*1 to 5 years*	*Over 5 years*	*Total*
Contingent liabilities	-	45,094	-	-	45,094
Commitments	-	33,003	129,787	-	162,790
Total	-	78,097	129,787	-	207,884

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

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group faces market risk due to taking positions that are exposed to interest rate, credit spread, currency and equity price movements.

The Board of Directors approves the investment guidelines to limit the Group's exposure to market risk. Within these guidelines the Investment Committee sets performance targets and allocates risk and capital enterprise wide and approves investment rules for each business or strategy. Group Risk Management monitors independently the level of market risk on a daily basis against the investment rules at each level of the company. Any issues or excessive exposures are resolved immediately and reported to the Investment Committee to determine if further action is required. Also, the Investment Committee decides whether any enterprise wide hedging is required to mitigate any material Group wide exposures.

(Currency - Thousands of U.A.E. Dirhams)

6. FINANCIAL RISK MANAGEMENT - continued

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable change in interest rates, with all other variables held constant, of the Group's consolidated statement of income.

Currency	***Increase in basis points***	***Sensitivity of net interest income 31 December 2011***	*Sensitivity of net interest income 31 December 2010*
AED	25	**14**	95
USD	25	**146**	171

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2011. The book value of assets and liabilities subject to floating interest rates is respectively 400,911 and 275,931 (31 December 2010 – 620,383 and 277,889).

There is no impact on the Group equity, other than the implied effect on profits.

Foreign exchange risk
Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Group has exposure in foreign currencies as a result of its geographically diversified operations which is monitored by management in adherence with internal guidelines.

The table below indicates the currencies to which the Group had significant exposure at 31 December 2011. The analysis indicates the effect on profit and equity of an assumed 1% strengthening in the UAE Dirham value against other currencies from levels applicable at 31st December 2011, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, whereas a positive amount reflects a net potential increase.

		31 December 2011		*31 December 2010*	
	% Change in Currency rate	***Effect on profit***	***Effect on equity***	*Effect on profit*	*Effect on equity*
Currency		***AED '000***	***AED '000***	*AED '000*	*AED '000*
Kuwaiti Dinar	+1	**(2)**	**(90)**	(21)	(327)
Egyptian Pound	+1	**(26)**	**(23)**	(6)	(51)
Indian Rupee	+1	**-**	**(763)**	-	(828)
Syrian Pound	+1	**-**	**(37)**	-	(270)

The UAE Dirham, Saudi Riyal, Qatari Riyal, Bahraini Dinar and Jordanian Dinar are pegged to the US Dollar. As a result, balances in these currencies do not result in foreign currency risk for the Group.

(Currency - Thousands of U.A.E. Dirhams)

6. FINANCIAL RISK MANAGEMENT - continued

Equity price risk
Equity price risk is the risk that the fair values of securities decrease as the result of changes in market values. The effect of equity price risk on the Group with all other variables held constant, is as follows:

		31 December 2011		*31 December 2010*	
	% Change in equity price	***Effect on profit AED '000***	***Effect on equity AED '000***	*Effect on profit AED '000*	*Effect on equity AED '000*
Quoted Equities					
Kuwait Stock Exchange	-5	**-**	**(457)**	(1,650)	-
KSA Stock Exchange	-5	**(416)**	-	(428)	-
Doha Stock Exchange	-5	**(157)**	-	(42)	-
DFM	-5	**(141)**	-	(124)	(57)
Egypt Stock Exchange	-5	**(14)**	**(2)**	(98)	-
ADSM	-5	**(71)**	-	(17)	-
NASDAQ Dubai	-5	**-**	-	(729)	-
Oman Stock Exchange	-5	**-**	-	(29)	-
Unquoted Equities	-5	**-**	-	-	(11)
Funds	-5	**(9,672)**	**(3,133)**	(12,293)	(3,822)
Bonds	-5	**(3,617)**	-	(1,242)	-

Operational risk
Operational risk is the risk of loss resulting from systems failure, human error, fraud or external events. Authority is delegated by the Board of Directors to set the Group wide operational policies to manage the risk and control environment and meet the expectations of the Board of Directors and shareholders.

Group Risk Management use a risk and control framework to identify, measure, manage and monitor risk throughout the Group and ensure adherence to Group wide policies.

Capital risk management
The primary objective of the Group's capital management is to ensure that the Group maintains a strong capital structure, in order to support its business and to maximise shareholders' return.

The Group's policy is to maintain a strong capital base well above the minimum requirements to maintain investor, creditor and market confidence and to sustain future development of the business.

The capital structure of the Group in terms of the gearing ratio is as shown below:

	31 December 2011	*31 December 2010*
Total borrowings	**275,931**	283,959
Total equity	**1,168,924**	1,474,799
Total capital	**1,444,855**	1,758,758
Gearing ratio	**19.1%**	16.1%

Borrowings consist of short and long term bank borrowings and financial liabilities to third parties.

Equity includes all capital and reserves of the Group that are managed as capital.

(Currency - Thousands of U.A.E. Dirhams)

7. CASH AND DEPOSITS WITH BANKS

Cash and deposits with banks include a fixed deposit of 43,097 (31 December 2010 – 43,097) with a local bank, which is held as collateral for a Central Bank guarantee.

8. RECEIVABLES AND OTHER DEBIT BALANCES

	31 December 2011	*31 December 2010*
Amounts due from related parties	**14,911**	323
Prepayments	**10,524**	7,944
Interest receivables	**5,383**	6,372
Advances for staff programs	**3,768**	6,517
Client related receivables	**3,035**	12,755
Other receivables	**5,892**	5,368
	43,513	39,279

9. INSTALLMENT CREDITS, LOANS AND ADVANCES

Installment credits, loans and advances comprise the following:

	31 December 2011	*31 December 2010*
Installment credits	**365,985**	221,622
Loans and advances	**106,284**	148,191
Margin lending	**104,175**	235,482
	576,444	605,295

(a) Installment credits

	31 December 2011	*31 December 2010*
Total installment credits	**391,537**	256,183
Cumulative provision for impairment	**(18,677)**	(29,621)
Interest in suspense	**(6,875)**	(4,940)
	365,985	221,622

The movement in cumulative provision for impairment of instalment credits during the year is as follows:

	31 December 2011	*31 December 2010*
Balance at beginning of the year	**(29,621)**	(33,816)
Provision made during the year	**(6,873)**	(10,386)
	(36,494)	(44,202)
Less: recoveries made against the provision during the year	**14,127**	10,271
Less: write offs	**3,690**	4,310
Balance at end of the year	**(18,677)**	(29,621)

The cumulative provision for impairment represents management's best estimate of potential losses in the instalments credits as at the reporting date.

(Currency - Thousands of U.A.E. Dirhams)

9. INSTALLMENT CREDITS, LOANS AND ADVANCES - continued

(b) Loans and advances

	31 December 2011	*31 December 2010*
Loans	**111,025**	151,668
Cumulative provision for impairment	**(3,927)**	(2,115)
Interest in suspense	**(814)**	(1,362)
	106,284	148,191

The movement in cumulative provision for impairment of loans and advances during the year is as follows:

	31 December 2011	*31 December 2010*
Balance at beginning of the year	**(2,115)**	(1,347)
Provision made during the year	**(13,590)**	(1,524)
	(15,705)	(2,871)
Less: recoveries made against the provision during the year	**6,068**	256
Less: write offs	**5,710**	500
Balance at end of the year	**(3,927)**	(2,115)

The cumulative provision for impairment represents management's best estimate of potential losses in the loans and advances as at the reporting date.

(c) Margin lending

The Group extends margins to clients for the purpose of trading in quoted securities. These advances are short term in nature and are secured by the underlying securities held in custody by the Group. As at 31 December 2011, these underlying securities were valued at 410,817. Provisions are made for the uncovered portion of margins. As at the end of the year the cumulative provision is 89,301 (31 December 2010 – 51,379).

10. INVESTMENTS IN SHUAA MANAGED FUNDS

Investments in SHUAA managed funds consist of the following:

	31 December 2011	*31 December 2010*
Held at fair value through profit and loss	**153,513**	88,683
Available for sale	**12,778**	16,306
Associates	**66,430**	65,442
	232,721	170,431

Associates
The Group owns 27.8% (31 December 2010: 23.7%) of SHUAA Hospitality Fund I L.P., a closed ended private equity investment Fund registered as an exempted limited partnership in the Cayman Islands. The principal purpose of the Fund is to undertake direct or indirect investments in hospitality development projects and existing hospitality properties to be managed by Rotana Hotel Management Corporation LLC in the MENA region. As a consequence of cross investment holdings by the Fund the Group indirectly owns 27.1% of SHUAA Saudi Hospitality Fund, an open ended investment Fund regulated by the Capital Markets Authority in Saudi Arabia. The principal purpose of the SHUAA Saudi Hospitality Fund is to achieve long term capital growth through investing in hospitality related real estate in the Kingdom of Saudi Arabia.

The Group owns 35.5% (31 December 2010: 35.5%) of Frontier Opportunities Fund I L.P., a closed ended private equity investment Fund registered as an exempted limited partnership in the Cayman Islands. The principal purpose of the Fund is to undertake direct or indirect investments in Syria, Lebanon and Jordan.

(Currency - Thousands of U.A.E. Dirhams)

10. INVESTMENTS IN SHUAA MANAGED FUNDS - continued

The Group's share of these associates' assets, liabilities and profit/ (loss) for the year are as follows:

	31 December 2011	*31 December 2010*
Assets	**80,734**	92,385
Liabilities	**(9,180)**	(10,290)
Net assets	**71,554**	82,095
(Loss) / Profit for the year - net	**(17,078)**	6,720

11. INVESTMENTS IN THIRD PARTY ASSOCIATES

The Group has investments in third party associates in the following locations:

	31 December 2011	*31 December 2010*
U.A.E.	**63,179**	105,826
Other G.C.C.	**72,347**	80,851
	135,526	186,677

City Engineering LLC
The Group owns 40.0% (31 December 2010: 40%) of City Engineering LLC, a limited liability company based in Sharjah U.A.E. and engaged in contracting activities. The recoverable amount of this asset has been determined based on equity accounting net of an impairment provision.

Septech Holding Limited
Septech Holding Limited is a limited liability company, incorporated in Cayman Islands and based in Sharjah U.A.E., engaged in wastewater, water, marina and related infrastructure products and services. The Group owns 49.0% (31 December 2010: 49.0%) of Septech Holding Limited. The recoverable amount of this asset has been determined based on equity accounting net of an impairment provision.

Amwal
The Group owns 46.7% (31 December 2010: 46.7%) of Amwal, a Qatari closed shareholding company licensed by the Central Bank of Qatar to conduct investment banking and asset management activities in Qatar. The recoverable amount of this asset has been determined based on equity accounting net of an impairment provision.

	1 January 2011 to 31 December 2011 (12 months)	*1 January 2010 to 31 December 2010 (12 months)*
Balance at beginning of the year	**186,677**	461,266
Sale of associates during the year	**-**	(196,214)
Share of results of associates	**9,626**	(15,177)
Impairment recognised	**(55,812)**	(34,694)
Share of other comprehensive income of associates	**(2,959)**	5,549
Dividends received	**(2,000)**	(28,275)
Translation reserve	**(6)**	(5,778)
Balance at end of the year	**135,526**	186,677

(Currency - Thousands of U.A.E. Dirhams)

11. INVESTMENTS IN THIRD PARTY ASSOCIATES - continued

The Group's share of these associates' assets, liabilities and revenues for the year are as follows:

	31 December 2011	*31 December 2010*
Assets	**272,911**	287,869
Liabilities	**(112,129)**	(128,810)
Net assets	**160,782**	159,059
Revenues	**55,009**	95,827
Profit for the year	**2,254**	2,558

12. OTHER INVESTMENTS

Other investments comprise the following:

	31 December 2011	*31 December 2010*
Investments Held at fair value through profit and loss	**97,558**	156,474
Investments available for sale	**108,567**	140,433
Investments held to maturity	**7,519**	80,917
	213,644	377,824

a) Held at fair value through profit and loss investments

Held at fair value through profit and loss investments comprise the following:

	31 December 2011	*31 December 2010*
Fund investments	**9,261**	102,332
Quoted equity securities	**15,975**	29,302
Fixed income securities	**72,322**	24,840
	97,558	156,474

b) Investments available for sale

Investments available for sale comprise the following:

	31 December 2011	*31 December 2010*
Quoted direct equity investments	**9,181**	34,183
Unquoted fund investments	**99,386**	106,250
	108,567	140,433

c) Investments held to maturity

Investments held to maturity comprise the following:

	31 December 2011	*31 December 2010*
Fixed income securities	**7,519**	80,917
	7,519	80,917

The market value of fixed income securities held to maturity as of 31 December 2011 is 7,519 (31 December 2010 92,499). Held to maturity investments which have matured during the year have generated cash proceeds amounting to 85,372.

(Currency - Thousands of U.A.E. Dirhams)

13. PROPERTY AND EQUIPMENT

	31 December 2011				
	Furniture & leasehold improvements	***Office equipment***	***Motor vehicles***	***Land & buildings***	***Total***
Gross value					
Balance at beginning of the year	**36,222**	**29,292**	**2,274**	**18,583**	**86,371**
Additions	**808**	**2,662**	**59**	**-**	**3,529**
Disposals	**(625)**	**(1,029)**	**(766)**	**-**	**(2,420)**
Balance at end of the year	**36,405**	**30,925**	**1,567**	**18,583**	**87,480**
Accumulated depreciation					
Balance at beginning of the year	**19,528**	**22,981**	**1,413**	**542**	**44,464**
Charge for the year	**9,318**	**4,587**	**490**	**465**	**14,860**
Reversal of depreciation on disposal	**(309)**	**(982)**	**(480)**	**-**	**(1,771)**
Balance at end of the year	**28,537**	**26,586**	**1,423**	**1,007**	**57,553**
Net book value					
Balance at end of the year	**7,868**	**4,339**	**144**	**17,576**	**29,927**

	31 December 2010				
	Furniture & leasehold improvements	*Office equipment*	*Motor vehicles*	*Land & buildings*	*Total*
Gross value					
Balance at beginning of the year	35,243	25,631	2,380	18,583	81,837
Additions	3,514	4,970	340	-	8,824
Disposals	(2,535)	(1,309)	(446)	-	(4,290)
Balance at end of the year	36,222	29,292	2,274	18,583	86,371
Accumulated depreciation					
Balance at beginning of the year	15,559	17,897	1,511	77	35,044
Charge for the year	4,913	6,223	332	465	11,933
Reversal of depreciation on disposal	(944)	(1,139)	(430)	-	(2,513)
Balance at end of the year	19,528	22,981	1,413	542	44,464
Net book value					
Balance at end of the year	16,694	6,311	861	18,041	41,907

(Currency - Thousands of U.A.E. Dirhams)

14. GOODWILL

Goodwill acquired through business combinations has been allocated to cash generating units as follows:

	31 December 2011	*31 December 2010*
SHUAA Securities LLC	**-**	69,683
Gulf Finance Corporation PJSC	**34,111**	34,111
	34,111	103,794

The recoverable amount of these units has been determined based on value in use calculations, using cash flow projections based on financial budgets approved by senior management covering a five year period. The calculation of value in use is most sensitive to UAE and GCC gross domestic product, discount rates, market share and projected growth rates used to extrapolate cash flows beyond the budget period.

The movement in goodwill during the year is as follows:

	1 January 2011 to 31 December 2011	*1 January 2010 to 31 December 2010*
Balance at beginning of year	**103,794**	143,039
Impairment of SHUAA Securities LLC	**(69,683)**	-
Impairment of SHUAA Capital Saudi Arabia	**-**	(39,245)
Balance at end of year	**34,111**	103,794

The Group performed an impairment test on SHUAA Securities LLC as at 31 December 2011. The recoverable amount of SHUAA Securities LLC has been determined based on a value in use calculation. As a result of this analysis, a full impairment charge of 69,683 against goodwill previously carried has been recognised.

15. DUE TO BANKS

Due to banks comprise borrowings obtained from commercial banks in the ordinary course of business against the Group's established credit lines with those banks. Amounts due to banks are repayable within twelve months.

	31 December 2011	*31 December 2010*
Bank overdrafts	**-**	4,436
Term loans repayable within twelve months	**222,181**	129,495
	222,181	133,931

The Group's banking facilities carry EBOR based floating interest rates plus a spread ranging between 3% and 4%.

At 31 December 2011, letters of guarantee on behalf of the Group amounting to 153,698 (31 December 2010 – 155,723) had been provided by the Group's bankers. These guarantees are a standard mechanism used within the region's banking structures and financial exchanges to facilitate activities. It is anticipated that no material liabilities will arise from these guarantees.

(Currency - Thousands of U.A.E. Dirhams)

16. PAYABLES AND OTHER CREDIT BALANCES

Payable and other credit balances comprise the following:

	31 December 2011	*31 December 2010*
Payable to clients	**65,125**	80,574
Dividends payable	**34,567**	36,176
End of service benefits	**15,015**	14,722
Due to related parties	**14,658**	1
Accruals	**10,674**	25,426
Provisions	**5,738**	600
Payable against settlement of trades	**3,305**	3,199
Structured notes	**-**	6,070
Other payables	**12,156**	2,900
	161,238	169,668

17. MEDIUM TERM DEBT

Medium term debt comprises the following:

	31 December 2011	*31 December 2010*
Term loans	**53,750**	143,958
	53,750	143,958

Included within medium term debt is 26,667, being the medium term component of a term loan from a local bank secured by a charge over certain assets of the Group with a combined net asset value of at least 200,000. The total outstanding amount is 133,333 of which 106,666 is due within a year and is included within due to banks.

18. SHARE CAPITAL

Authorised, issued and fully paid share capital comprises 1,065,000,000 shares of UAE Dirham 1.00 per share (31 December 2010: 1,065,000,000 shares). Each share carries one vote and the right to receive dividends.

19. TREASURY SHARES

The Group held the following treasury shares at 31 December 2011:

	31 December 2011	*31 December 2010*
Number of treasury shares	**3,500,000**	3,500,000
Treasury share as percentage of total shares in issue	**0.3%**	0.3%
Cost of treasury shares	**14,458**	14,458
Market value of treasury shares	**1,925**	4,305

During the year, no treasury shares were bought or sold (31 December 2010: nil).

(Currency - Thousands of U.A.E. Dirhams)

20. EMPLOYEE STOCK OPTION PLAN SHARES

The following employee stock option plan shares were held in trust at 31 December 2011:

	31 December 2011	*31 December 2010*
Number of shares	**31,598,004**	31,598,004
Shares as percentage of total shares in issue	**3.0%**	3.0%
Cost of shares	**86,603**	86,603
Market value of shares	**17,379**	38,866

Movement in employee stock option plan shares was as follows:

	Number of shares	
	1 January 2011 to 31 December 2011	*1 January 2010 to 31 December 2010*
Balance at the beginning of the year	**31,598,004**	19,561,391
Executed options	-	(3,963,387)
Acquired shares	-	16,000,000
Balance at the end of the year	**31,598,004**	31,598,004

21. STOCK OPTION PLAN

Share options are granted to employees at the discretion of the Board within a framework approved by the shareholders of the Company.

Each employee share option converts into 1 share of the Company on exercise. No amounts are paid or payable by the recipient of the option. The options carry neither rights to dividends nor voting rights. These options may be exercised anytime between the dates of vesting and expiry.

During the year, 10,850,000 options were issued to new and existing employees at a weighted average exercise price of AED 1.56, vesting between one and three years after issue. The fair value of these options granted during the year was 3,558 (31 December 2010 - 8,041).

For the purpose of calculating the expense to be recognised in the consolidated statement of income, the fair value of options granted and the fair value of the option modification have been determined using the Black-Scholes option model. The services received and a liability to pay for these services is recognised over the expected vesting period.

The following table lists the assumptions used in the equity settled options model.

	31 December 2011	***31 December 2010***
Dividend yield	**1.6%**	**3.9%**
Expected volatility	**55.8%**	**58.1%**
Risk free interest rate	**1.82%**	**2.2%**
Expected average life of option (years)	**3.09**	**3.21**
Weighted average strike price (AED)	**1.51**	**1.23**

Resignations contributed to the reversal of expenses previously booked and the net gain recognised for employee services received during the year was 828 (31 December 2010 – expense of 269).

Outstanding options granted to employees as of 31 December 2011 comprised 18,550,000 shares (31 December 2010 – 33,725,000) at an average exercise price of AED 1.51 per share (31 December 2010 – AED 1.26). The range of exercise prices for options outstanding at the end of the year was AED 1.00 to AED 2.00 (31 December 2010 – AED 1.00 to AED 4.00). During the year 7,202,500 (31 December 2010 – 5,138,391) options vested.

(Currency - Thousands of U.A.E. Dirhams)

22. STATUTORY RESERVE

As required by the UAE Company Law and the Company's articles of association, 10 % of the profit for the year is required to be transferred to statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the paid up share capital. Such transfers have been discontinued as the reserve has exceeded 50% of the paid up share capital.

This reserve is not available for distribution except as stipulated by the UAE Company Law.

23. INVESTMENT REVALUATION RESERVE

	1 January 2011 to 31 December 2011	*1 January 2010 to 31 December 2010*
Available for sale investments		
Balance at beginning of the year	**13,890**	(7,586)
Realised during the year	**(45)**	6,932
Net movement in fair values during the year	**(8,236)**	14,544
Balance at end of the year	**5,609**	13,890
Group's share of investment revaluation reserves in associates		
Balance at beginning of the year	**4,153**	(1,396)
Net movement in fair values during the year	**(2,959)**	5,549
Balance at end of the year	**1,194**	4,153
Total investment revaluation reserve	**6,803**	18,043

The investments revaluation reserve represents the cumulative gains and losses arising on the revaluation of available for sale investments that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

24. NON CONTROLLING INTERESTS

Non controlling interests represents the minority shareholders proportionate share in the aggregate value of the net assets of the subsidiaries and the results of these subsidiaries' operations.

25. NET FEE AND COMMISSION INCOME

Fee and commission income and expense comprises the following:

	31 December 2011	*31 December 2010*
Fee and commission income	**51,924**	88,717
Fee and commission expense	**(2,826)**	(1,736)
	49,098	86,981

26. (LOSSES)/GAINS FROM INVESTMENTS IN SHUAA MANAGED FUNDS

(Losses)/Gains from SHUAA managed funds comprise the following:

	31 December 2011	*31 December 2010*
Funds held at fair value through profit and loss	**(9,103)**	12,510
Investments available for sale		
Gains and losses	-	3,777
Impairment	**(3,256)**	(10,955)
Associates	**(19,460)**	6,867
	(31,819)	12,199

(Currency - Thousands of U.A.E. Dirhams)

27. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprise the following:

	31 December 2011	*31 December 2010*
Employee salaries and fringe benefits	**(138,184)**	(149,500)
Office rent and related expenses	**(16,935)**	(17,902)
Professional fees	**(21,161)**	(24,646)
Administration, technology and communication	**(13,938)**	(13,701)
Corporate marketing and branding costs	**(6,163)**	(7,738)
Other	**(12,680)**	(12,341)
	(209,061)	(225,828)

Included in "employee salaries and fringe benefits" is 828 (31 December 2010 – expense of 270) relating to a net reversal arising from transactions accounted for as equity settled share based payment transactions.

As of 31 December 2011, the Group had a total of 282 employees (31 December 2010 – 383 employees) represented by 106 employees in the parent company (31 December 2010 – 160 employees) and 176 in subsidiaries (31 December 2010 – 223 employees).

28. PROVISIONS

The Group recognised provisions in respect of the following:

	31 December 2011	*31 December 2010*
Installment credits, loans and advances - net	**(40,385)**	(6,594)
Allowance for doubtful receivables	**(7,094)**	(32,997)
Others	**(5,047)**	(2,544)
	(52,526)	(42,135)

29. GAINS/(LOSSES) FROM OTHER INVESTMENTS INCLUDING THIRD PARTY ASSOCIATES

Gains and losses from other investments are detailed as follows:

	31 December 2011	*31 December 2010*
Third party associates	**(46,186)**	(51,090)
Other investments		
Held at fair value through profit and loss	**21,765**	21,878
Available for sale		
Net gain and loss on disposal	**7,666**	(319)
Impairment	**(25,938)**	(31,405)
Held to maturity		
Gain on maturity	**11,974**	3,122
Impairment	**-**	(1,880)
	(30,719)	(59,694)

(Currency - Thousands of U.A.E. Dirhams)

30. EARNINGS PER SHARE

Basic earnings per share have been computed using the net loss attributable to the ordinary equity holders of the parent (293,796) (31 December 2010 – (223,604) adjusted by Directors' remuneration 138) divided by the weighted average number of ordinary shares outstanding 1,061,500,000 (31 December 2010 – 1,061,500,000).

Diluted earnings per share as of 31 December 2011 and 31 December 2010 are equivalent to basic earnings per share as the Company did not issue any new instrument that would impact earnings per share when executed.

31. RELATED PARTY TRANSACTIONS

The Group enters into transactions with companies and entities that fall within the definition of a related party. Related parties represent significant shareholders, directors and key management personnel of the Group, their close family members and entities controlled, jointly controlled or significantly influenced by such parties. Balances between the Company and its subsidiaries which are related parties of the Company have been eliminated on consolidated and are not disclosed in this note.

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

	31 December 2011	*31 December 2010*
Receivables and other debit balances		
Associates	**14,658**	45
Other related parties	**253**	278
Loans and advances		
Associates	**31,681**	23,172
Other related parties	**2,686**	12,913
Key management personnel	**861**	1,347
Investments in SHUAA managed funds	**232,721**	170,431
	282,860	208,186

Advances to key management personnel reflects trading margin secured against investments held and sums advanced under the staff assistance program available to all employees for which no interest is charged.

	31 December 2011	*31 December 2010*
Payables and other credit balances		
Other related parties	**14,658**	1
	14,658	1

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

	1 January 2011 to 31 December 2011	*1 January 2010 to 31 December 2010*
Interest income		
Associates	**1,739**	2,080
Other related parties	**461**	2,606
Income from investments in SHUAA managed funds		
Associates	**(19,460)**	6,867
Other related parties	**(12,359)**	5,332
Income from other investments		
Other related parties	**-**	(1,218)
Fees and commission income		
Other related parties	**4,305**	9,830
General & administrative expenses		
Other related parties	**-**	(186)
	(25,314)	25,311

(Currency - Thousands of U.A.E. Dirhams)

31. RELATED PARTY TRANSACTIONS - continued

Compensation of the key management personnel is as follows:

	1 January 2011 to 31 December 2011	*1 January 2010 to 31 December 2010*
Short term employee benefits	**19,979**	18,250
Termination benefits	**4,471**	882
Share based payments charge	**(2,017)**	9,084
Total compensation paid to key management personnel	**22,433**	28,216

32. SEGMENTAL INFORMATION

For management purposes the Group is organised into five operating segments, all of which are based on business units.

Asset Management manages twenty one investment portfolios and funds spanning across fourteen regional stock exchanges. SHUAA Asset Management offers regional and foreign investors gateways for investment in the GCC and Arab stock markets. SHUAA Asset Management manages conventional equity and debt as well as Shariah compliant portfolios and investment funds using both active and passive management styles. It also manages four private equity funds.

Investment Banking provides corporate finance advisory, private placements, public offerings of equity and debt securities, trade sales, mergers, acquisitions, divestitures, spinoffs, syndications and structured products.

Brokerage operates under the brand of SHUAA Securities and acts as principal and agent, providing custody and clearing services to clients, providing access to regional exchanges.

Lending activities are conducted by Gulf Finance, which is primarily engaged in asset backed lending with a primary focus on Small and Medium Enterprises finance.

Corporate manages future corporate development and controls all cash and shared service expenses related to the Group. All proprietary investments are incubated within this business segment which also comprises, strategy and business development, legal and compliance, finance, treasury, operations, risk management, investor relations, marketing communications and human resources, including Group wide bonus and employee compensation and benefits.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

(Currency - Thousands of U.A.E. Dirhams)

32. SEGMENTAL INFORMATION - continued

The following tables present consolidated financial information regarding the Group's business segments.

	31 December 2011					
	Asset Management	Investment Banking	Brokerage	Lending	Corporate	Total
Interest income	307	2,735	3,061	57,168	18,423	81,694
Net fees and commissions	23,497	3,797	16,830	4,016	958	49,098
Trading income	-	297	-	-	-	297
Losses from investments in SHUAA managed funds	-	-	-	-	(31,819)	(31,819)
Total revenues	23,804	6,829	19,891	61,184	(12,438)	99,270
General & administrative expenses	(18,420)	(14,153)	(33,395)	(30,267)	(112,828)	(209,063)
Interest expenses	-	-	(12)	(5,534)	(10,625)	(16,171)
Depreciation	(40)	-	(7,917)	(2,625)	(4,278)	(14,860)
Provisions	-	(7,105)	(41,578)	671	(4,514)	(52,526)
Goodwill impairment charge	-	-	(69,681)	-	-	(69,681)
Total expenses	(18,460)	(21,258)	(152,583)	(37,755)	(132,245)	(362,301)
Net gain/(loss) before gains/(losses) from other investments	5,344	(14,429)	(132,692)	23,429	(144,683)	(263,031)
(Losses)/gains from other investments	(113)	-	2,780	-	(33,386)	(30,719)
Profit/(loss) for the period	5,231	(14,429)	(129,912)	23,429	(178,069)	(293,750)
Attributable to:						
Non controlling interests	24	(6)	(46)	-	74	46
Equity holders of the parent	5,207	(14,423)	(129,866)	23,429	(178,143)	(293,796)

	31 December 2011					
	Asset Management	Investment Banking	Brokerage	Lending	Corporate	Total
Assets	23,433	6,860	156,807	518,733	900,260	1,606,093
Liabilities	1,106	-	47,220	166,651	222,192	437,169

(Currency - Thousands of U.A.E. Dirhams)

32. SEGMENTAL INFORMATION - continued

	31 December 2010					
	Asset Management	Investment Banking	Brokerage	Lending	Corporate	Total
Interest income	-	-	783	53,267	32,671	86,721
Net fees and commissions	31,689	14,828	29,091	7,928	3,445	86,981
Trading income	-	729	1,809	-	-	2,538
Gains from investments in SHUAA managed funds	-	-	-	-	12,199	12,199
Total revenues	31,689	15,557	31,683	61,195	48,315	188,439
General & administrative expenses	(30,320)	(18,722)	(38,260)	(26,856)	(111,670)	(225,828)
Interest expenses	(8)	-	(1,485)	(7,796)	(24,002)	(33,291)
Depreciation	(160)	-	(2,378)	(1,920)	(7,475)	(11,933)
Provisions	-	-	(9,928)	(1,381)	(30,826)	(42,135)
Goodwill impairment charge	-	-	-	-	(39,244)	(39,244)
Total expenses	(30,488)	(18,722)	(52,051)	(37,953)	(213,217)	(352,431)
Net gain/(loss) before gains/(losses) from other investments	1,201	(3,165)	(20,368)	23,242	(164,902)	(163,992)
Gains/(losses) from other investments	-	-	127	619	(60,440)	(59,694)
Profit/(loss) for the period	1,201	(3,165)	(20,241)	23,861	(225,342)	(223,686)
Attributable to:						
Non controlling interests	(3)	(2)	(3)	-	(74)	(82)
Equity holders of the parent	1,204	(3,163)	(20,238)	23,861	(225,268)	(223,604)

	31 December 2010					
	Asset Management	Investment Banking	Brokerage	Lending	Corporate	Total
Assets	11,405	7,686	243,922	418,340	1,241,003	1,922,356
Liabilities	1,211	-	44,017	89,671	312,658	447,557

The revenue reported above represents revenue generated from external customers only.

The accounting policies of each of the reportable segments are consistent with those of the Group.

Certain comparative numbers as of 31 December 2010 have been reclassified between segments in order to correspond to the changes in the internal reporting to management.

(Currency - Thousands of U.A.E. Dirhams)

33. COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following outstanding commitments and contingent liabilities:

	31 December 2011	*31 December 2010*
Contingent liabilities	**35,474**	45,094

Included within contingent liabilities are performance guarantees issued on behalf of City Engineering, an associate. These guarantees are regarded as unlikely to crystallise as a liability.

	31 December 2011	*31 December 2010*
Commitments		
SHUAA managed funds	**80,194**	100,638
Other investments	**49,837**	62,152

The Group reviewed the contingent liabilities and current legal cases and has sufficiently provided for any futures losses that might arise.

34. CLIENTS' ASSETS UNDER MANAGEMENT AND ADMINISTRATION

The Group is licensed as a financial services company regulated by the Central Bank of the United Arab Emirates. At 31 December 2011, clients' assets amounting to 5.3 billion (31 December 2010: 6.0 billion) were managed in a fiduciary capacity, without risk or recourse to the Group. These funds are off balance sheet items and do not constitute part of the Group's assets.