Reem Finance P.J.S.C.

Consolidated financial statements

31 December 2019

Principal business address:
P.O. Box: 111422
Abu Dhabi
United Arab Emirates

Reem Finance P.J.S.C.

Consolidated financial statements

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DIRECTORS' REPORT

Year ended 31 December 2019

The Board of Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2019.

Principal activities and business review

The Company is engaged in extending advances for financing trade and business, vehicle finance and personal loans to individuals.

Financial results and appropriation of income

During the year ended 31 December 2019, the Group has generated profit of AED 26,485,817 *(2018: AED 3,046,039)* and total comprehensive income for the year amounting to AED 26,486,321 *(2018: AED 3,046,039).*

Going concern basis

The Board of Directors has reasonable expectation that the Company has adequate resources a support to continue its operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2019.

Transactions with related Parties

The financial statements disclose related party transactions and balances in note 26. All transactions are carried out as part of our normal course of business and in compliance with applicable laws and regulations.

Auditors

KPMG were appointed as external auditors for the Company for the year ended 31 December 2019. KPMG have expressed their willingness to continue in office. A shareholder resolution for the reappointment of KPMG is proposed and to absolve them of their responsibility for the year ended 31 December 2020.

Board of Directors

The Directors as of 31 December 2019 comprised the following:

Dr. Saleh Al Hashemi	Chairman
Mr. Syed Basar Shueb	Vice Chairman
Mr. Mustafa Kheriba	Director
Mrs. Huda Abdulla	Director
Mrs. Sara Al Binali	Director

For The Board of Directors

Chairman

KPMG Lower Gulf Limited
Level 19, Nation Tower 2
Abu Dhabi Corniche, UAE
Tel. +971 (2) 401 4800, Fax +971 (2) 632 7612

Independent Auditors' Report

To the Shareholders of Reem Finance PJSC

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Reem Finance P.J.S.C.("the Company") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the Directors' report set out on page 1.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the Consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

- we have obtained all the information and explanations we considered necessary for the purposes of our audit;

- the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;

- the Group has maintained proper books of account;

- the financial information included in the Directors' report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;

- as disclosed in note 10 to the Consolidated financial statements, the Group has not purchased any shares during the year ended 31 December 2019;

- note 26 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted; and

Report on Other Legal and Regulatory Requirements *(continued)*

- based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2019, any of the applicable provisions of the UAE Federal Law No.(2) of 2015 or in respect of the Company, its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2019.

Further, as required by Article (114) of the Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

KPMG Lower Gulf Limited

Emilio Pera
Registered No. 1146
Abu Dhabi, United Arab Emirates
Date: 13 APR 2020

Reem Finance P.J.S.C.

Consolidated statement of financial position
as at 31 December

	Note	**2019 AED**	2018 AED
Assets			
Cash and bank balances	*7*	**48,032,641**	69,844,945
Loans and advances, net	*8*	**227,023,537**	208,695,949
Debt securities, net	*9*	**186,382,364**	241,123,334
Investments at fair value through profit or loss	*10*	**245,770,568**	252,973,798
Investment property	*11*	**39,655,000**	11,465,425
Derivative financial assets	*12*	**58,530,174**	48,473,450
Prepayments and other receivables	*13*	**61,808,254**	41,896,913
Property, plant and equipment	*14*	**687,273**	1,014,047
Intangible assets	*15*	**23,386**	75,183
Total assets		**867,913,197**	875,563,044
Liabilities			
Customers' deposits	*17*	**242,330,700**	183,153,817
Term loans	*16*	**113,447,126**	195,055,250
Other payables	*18*	**72,945,317**	84,313,678
Provision for employees' end of service benefits	*19*	**655,975**	698,191
Derivative financial liabilities	*12*	**9,959,119**	10,252,965
Total liabilities		**439,338,237**	473,473,901
Equity			
Share capital	*20*	**400,000,000**	400,000,000
Legal reserve	*21*	**17,103,102**	14,454,520
Impairment reserve		**5,820,273**	-
Retained earnings / (accumulated losses)		**5,651,585**	(12,365,377)
Total equity		**428,574,960**	402,089,143
Total liabilities and equity		**867,913,197**	875,563,044

To the best of our knowledge, the consolidated financial statements fairly presents, in all material respects, the consolidated financial position, results of operation and consolidated cash flows of the Group as of, and for, the year ended 31 December 2019:

Dr. Saleh Al Hashemi
Chairman

Mr. Seraj Tariq Faidi
General Manager

The notes on pages 10 to 60 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 2 to 5.

Reem Finance P.J.S.C.

Consolidated statement of profit or loss and comprehensive income
for the year ended 31 December

	Note	**2019 AED**	2018 AED
Interest income on loans and advances		**41,777,240**	25,885,513
Interest income on bank deposits		**834,133**	820,151
Interest expense on customers' deposits		**(17,550,042)**	(13,546,120)
Interest expense on term loans		**(10,331,072)**	(13,728,629)
Fee and commission income		**2,893,751**	1,280,141
Revaluation gain / (loss) on properties		**6,619,575**	(238,045)
Dividend and investment income, net	*23*	**26,474,473**	15,218,402
Operating Income		**50,718,058**	15,691,413
General and administrative expenses	*24*	**(18,581,944)**	(17,726,810)
(Charge) / reversal for allowance for expected credit losses on financial instrument		**(5,650,297)**	5,081,436
Profit for the year		**26,485,817**	3,046,039
Other comprehensive income		**-**	**-**
Total comprehensive income for the year		**26,485,817**	3,046,039

The notes on pages 10 to 60 form an integral part of these consolidated financial statements.

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Reem Finance P.J.S.C.

Consolidated statement of changes in equity

for the year ended 31 December

	Share Capital AED	Legal reserve AED (note 8)	Impairment reserve AED	(Accumulated losses) / Retained earnings AED	Total AED
Balance at 1 January 2018	400,000,000	14,149,916	-	12,893,188	427,043,104
Total comprehensive income for the year	-	-	-	3,046,039	3,046,039
Transfer to legal reserves	-	304,604	-	(304,604)	-
Dividends paid *(Note 25)*	-	-	-	(28,000,000)	(28,000,000)
Balance at 31 December 2018	400,000,000	14,454,520	-	(12,365,377)	402,089,143
As at 1 January 2019	400,000,000	14,454,520	-	(12,365,377)	402,089,143
Total comprehensive income for the year	-	-	-	26,485,817	26,485,817
Transfer to legal reserves	-	2,648,582	-	(2,648,582)	-
Impairment reserve	-		5,820,273	(5,820,273)	-
Dividends paid	-	-	-	-	-
Balance at 31 December 2019	**400,000,000**	**17,103,102**	**5,820,273**	**5,651,585**	**428,574,960**

The notes on pages 10 to 60 form an integral part of these consolidated financial statements.

Reem Finance P.J.S.C.

Consolidated statement of cash flows
for the year ended 31 December

	Note	2019 AED	2018 AED
Cash flows from operating activities			
Profit for the year		**26,485,817**	3,046,039
Adjustments for:			
Depreciation of property and equipment		**337,984**	344,029
Amortisation of intangibles assets		**51,797**	58,762
Employees' end of service benefits charge		**49,569**	84,075
Unrealised gain on derivative financial instrument		**(10,350,570)**	-
Loss on sale of investments		**1,404,234**	3,780,083
Net unrealised loss on financial instruments at fair value through profit or loss		**743,516**	1,853,805
Gain / (loss) on revaluation of investment property		**(6,619,575)**	238,045
Property and equipment written off		**1,300**	-
Allowance for expected credit losses on financial instruments		**5,650,297**	(5,081,436)
Interest expense		**10,331,072**	13,728,629
Foreign exchange gain on investments at amortised cost		**236,485**	925,868
		28,321,926	18,977,899
Movement in working capital:			
Prepayments and other receivables		**(18,985,473)**	(11,877,440)
Amount due from broker		-	51,174,022
Loans and advances, net		**(31,874,518)**	21,890,120
Customers' deposits		**59,176,883**	(94,376,625)
Other payables		**(11,504,269)**	24,736,594
Cash generated from operating activities		**25,134,549**	10,524,570
End of service benefits paid		**(91,785)**	(108,003)
Net cash generated from operating activities		**25,042,764**	10,416,567
Cash flows from investing activities			
Purchase of property and equipment		**(12,510)**	(219,778)
Purchase of intangible assets		-	(10,430)
Purchase of investments		**(55,397,500)**	(158,219,991)
Proceeds from sale of investments		**100,358,230**	134,034,739
Proceeds from sale of fixed assets		**-**	794
Deposit under lien		**(200,000)**	(4,500,000)
Fixed deposits with original maturity over three months		**7,040,897**	10,500,000
Net cash generated from / (used in) investing activities		**51,789,117**	(18,414,666)
Cash flows from financing activities			
Dividend paid		**-**	(28,000,000)
Proceeds from loan		-	117,431,254
Interest on loan		**(10,195,164)**	(13,728,629)
Repayment of loan		**(81,608,124)**	(93,712,755)
Net cash used in generated from financing activities		**(91,803,288)**	(18,010,130)
Net decrease in cash and cash equivalents		**(14,971,407)**	(26,008,229)
Cash and cash equivalents at 1 January		**29,743,556**	55,751,785
Cash and cash equivalents at 31 December	*7*	**14,772,149**	29,743,556

The notes on pages 10 to 60 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 2 to 5.

1 Legal status and principal activities

Reem Finance P.J.S.C. (the “Company”) is a private joint stock company incorporated on 15 March 2007 registered in the Emirate of Abu Dhabi, United Arab Emirates, in accordance with Federal Law No. (8) of 1984 (as amended) and UAE Companies Law of 2015 (UAE Federal Law No. (2) issued on 1 April 2015). The Company’s registered office is P.O. Box 111422, Abu Dhabi, United Arab Emirates.

The Company and its subsidiary (together referred to as “the Group”) are licensed to engage in extending advances for financing trade and business, vehicle finance and personal loans to individuals.

The consolidated financial statements were approved and authorised for issue by the Group’s Board of Directors on 12 April 2020.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), applicable requirements of UAE Federal Law No. (2) of 2015 (issued on 1 April 2015) and the requirements of the Central Bank of UAE.

(b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost convention except for the following:

- Financial assets at fair value through profit or loss which are measured at fair value; and
- Investment properties which are measured at fair values.

This is the first set of the Group’s annual consolidated financial statements in which IFRS 16 *Leases* has been applied. Changes to significant accounting policies are described in note 4 to the consolidated financial statements.

(c) Functional and presentation currency

These Consolidated financial statements are presented in United Arab Emirates Dirham (“AED”), which is the Group’s functional currency. Except as indicated, information presented in AED has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

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 and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 6 to the consolidated financial statements.

3 Basis of consolidation

Subsidiaries are all entities over which the Company has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

The financial statements of the subsidiary is prepared for the same reporting year as the Group, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

These consolidated financial statements include the financial statements of the Company and its subsidiary listed below:

	Country of incorporation	**31 December 2019**	31December 2018
		%	%
Reem Properties L.L.C.	**UAE**	**100**	100

The above subsidiary is considered as wholly owned by the Company as non-controlling interest is held for the beneficial interest of the Company. Accordingly, no non-controlling interest is accounted for in relation to these entities in these consolidated financial statements.

The Group is operating in a single segment; and in a single geographic area; the United Arab Emirates.

4 Significant accounting policies

(a) New and amended standards and interpretations adopted

The Group initially applied IFRS 16 *'Leases'* from 1 January 2019. A number of other new standards are also effective from 1 January 2019, but they do not have a material effect on the Group's financial statements.

IFRS 16 Leases (effective 1 January 2019)

The Group applied IFRS 16 with a date of initial application of 1 January 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed below.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. The details of the changes in accounting policies are disclosed below.

A. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

B. As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Group decided to apply recognition exemptions to short-term leases of machinery and leases of IT equipment. For leases of other assets, which were classified as operating under IAS 17, the Group recognised right-of-use assets and lease liabilities.

(i) Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application
- the Group applied this approach to its largest property leases; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other leases.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

4 Significant accounting policies *(continued)*

(a) ***New and amended standards and interpretations adopted*** *(continued)*

IFRS 16 Leases *(continued)*

B. As a lessee *(continued)*

(i) Leases classified as operating leases under IAS 17 *(continued)*

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(ii) Leases classified as finance leases under IAS 17

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

C. As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group accounted for its leases in accordance with IFRS 16 from the date of initial application.

Under IFRS 16, the Group is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. On transition, the Group reassessed the classification of a sub-lease contract previously classified as an operating lease under IAS 17. The Group concluded that the sub-lease is a finance lease under IFRS 16.

The Group applied IFRS 15 *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease component.

D. Impact on consolidated financial statements

Based on management assessment, the Group has determined the application of IFRS 16 at 1 January 2019 does not result in a significant impact on the consolidated financial statements.

(b) ***Financial assets and liabilities***

(i) ***Recognition and initial measurement***

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

4 Significant accounting policies *(continued)*

(b) ***Financial assets and liabilities*** *(continued)*

(i) ***Recognition and initial measurement*** *(continued)*

All regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to or received from the counterparty. Regular way purchases or sales of financial assets are those that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) ***Classification of financial assets and financial liabilities***

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

4 Significant accounting policies *(continued)*

(b) ***Financial assets and liabilities*** *(continued)*

(ii) ***Classification of financial assets and financial liabilities*** *(continued)*

Business model assessment

The Group performs an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and

the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about the future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group considers:
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money - e.g. periodical reset of interest rate.

(iii) ***Reclassifications***

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

The Group classifies its financial liabilities, other than financial guarantees and loan commitments at amortised cost or FVTPL

4 Significant accounting policies *(continued)*

(b) ***Financial assets and liabilities*** *(continued)*

(iv) ***De-recognition***

Financial asset

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liability

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(v) ***Modifications of financial assets and financial liabilities***

Financial assets

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and

- Other fees are included in profit or loss as part of the gain or loss on derecognition.

4 Significant accounting policies *(continued)*

(b) ***Financial assets and liabilities*** *(continued)*

(v) ***Modifications of financial assets and financial liabilities*** *(continued)*

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees receivable as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

(vi) ***Subsequent measurement***

The following accounting policies apply to the subsequent measurement of financial assets

Category	**Subsequent measurement**
Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on de-recognition is recognised in profit or loss.

(vii) ***Offsetting***

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions.

4 Significant accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

(viii) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(ix) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in the statement of profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The Group recognizes transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

4 Significant accounting policies *(continued)*

(b) ***Financial assets and liabilities*** *(continued)*

(x) ***Impairment of financial assets***

The Group recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- Financial assets that are financing instruments;
- Off-balance sheet instruments issued; and
- Financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

The Expected Credit Loss (ECL) model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. Expected credit losses reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception.

- Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded.
- Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded.
- Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

Measurement of ECL

IFRS 9 considers the calculation of ECL by multiplying the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The Group has developed methodologies and models taking into account the relative size, quality and complexity of the portfolios.

These parameters are generally derived from externally developed statistical models by a consultant.

Details of these statistical parameters/inputs are as follows:

- The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon;
- The Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date; and
- The Loss Given Default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

4 Significant accounting policies *(continued)*

(b) ***Financial assets and liabilities*** *(continued)*

(x) ***Impairment of financial assets*** *(continued)*

Macroeconomic factors, forward looking information and multiple scenarios

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. Macroeconomic factors and forward looking information are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;
– a breach of contract such as a default or past due event;
– the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
– it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
– the disappearance of an active market for a security because of financial difficulties.

Experienced credit judgment

The Group's ECL allowance methodology requires the use of experienced credit judgment to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

Default definition followed by the Group for impairment assessment remains in line with the guidelines of IFRS 9, without any recourse to the assumptions, and consistent with regulatory requirements. The policy on the write-off of financing transactions remains unchanged.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Expected life

When measuring expected credit loss, the Group considers the maximum contractual period over which the Group is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, and extension and rollover options.

4 Significant accounting policies *(continued)*

(b) ***Financial assets and liabilities*** *(continued)*

(x) ***Impairment of financial assets*** *(continued)*

Central Bank of UAE ("CBUAE") provision requirements

As per the CBUAE notice no. CBUAE/BSD/2018/458 dated 30 April 2018, if the specific provision and general/collective provision cumulatively is higher than the impairment allowance computed under IFRS 9, the differential should be transferred to an "Impairment Reserve" as an appropriation from the Retained earnings. This Impairment Reserve should be split to that which relates to difference in specific provision and general/collective provision. The Impairment reserve will not be available for payment of dividend.

Definition of default

The Group considers a financial asset to be in default when:

- It is established that due to financial or non-financial reasons the borrower is unlikely to pay its credit obligations to the Group in full without recourse by the Group to actions such as realizing security (if any is held); or
- the borrower is past due 90 days or more on any material credit obligation to the Group.
- In assessing whether a borrower is in default, the Group considers indicators that are:
    i. qualitative - e.g. material breaches of covenant;
    ii. quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
    iii. based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

(c) ***Derivatives held for risk management purposes***

The Group enters into derivative instruments contracts including forwards and swaps in the foreign exchange market. Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognition in profit or loss. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using the prevailing market rates or internal pricing models. Derivatives held for trading purposes are revalued to prevailing market rates at the statement of financial position date and the resultant gains or losses are included in the statement of profit or loss. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the statement of financial position.

(d) ***Cash and cash equivalents***

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

4 Significant accounting policies *(continued)*

(e) Due from banks

Amounts due from banks are stated at amortised cost, less allowance for impairment, if any.

(f) Investments measured at fair value through other comprehensive income ("FVOCI")

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- Interest revenue using the effective interest method
- ECL and reversals, and
- Foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

Gains and losses on equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an equity investment.

(g) Investments at fair value through profit or loss

These are securities that the Group acquire principally for the purpose of selling in the near term or holding as a part of portfolio that is managed together for short-term profit or position taking. These assets are initially recognised and subsequently measured at fair value in the statement of financial position. All changes in fair values are recognised as part of profit or loss.

(h) Loans and advances

Loans and advances' captions in the statement of financial position include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

(i) Property, plant and equipment

(i) Recognition and measurement

Items of property and equipment are initially measured at cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to profit or loss in the period in which they are incurred.

4 Significant accounting policies *(continued)*

(i) ***Property, plant and equipment*** *(continued)*

(i) Recognition and measurement (continued)

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognised in other income / other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is to be charged to income applying the straight-line method considering the estimated useful life of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. The depreciation charge for the year is to be calculated after taking into account residual value, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation on additions is to be charged from the date on which the assets are available for use and ceases on the date on which they are disposed-off.

The estimated useful life of fixed assets for the group is as follows:

Furniture and fixtures	**4-6 years**
Office Equipment	**4 years**
Motor vehicles	**3 years**

(j) ***Intangible assets***

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is charged on a straight line basis over their estimated useful lives. The estimated useful lives are reviewed at the end of each annual reporting period, with effect of any changes in estimate being accounted for on a prospective basis. Intangible assets mainly include computer software with an estimated useful life of 4 years. Software licenses are amortised over the period of validity of the license.

(k) ***Investment properties***

(i) Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Initially investment property is measured at cost including transaction costs. Subsequent to initial recognition investment property is stated at fair value. Gains and losses arising from changes in fair values of investment property is included in the consolidated statement of comprehensive income in the year in which they arise.

4 Significant accounting policies *(continued)*

(k) Investment properties (continued)

(i) Investment properties (continued)

Investment property is derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the derecognition of an investment property are recognised in the consolidated statement of comprehensive income in the year of derecognition.

(ii) Investment properties under development

Investment properties that are being developed for future use as investment properties are classified as investment properties under development and stated at cost incurred to date, less accumulated impairment losses, if any, until development is complete, at which time they are reclassified and accounted for as investment properties.

(l) Non-current asset held for sale

An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

(m) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or cash generating units. Goodwill arising from a business combination is allocated to cash generating units or groups of cash generating units that are expected to benefit from the synergies of the combination.

The 'recoverable amount' of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, 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 or cash generating unit.

Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

(n) Customers' deposits and due to banks

Customers' deposits and due to banks are initially recognised at cost, being the fair value of the consideration received and subsequently measured at their amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on settlement.

4 Significant accounting policies *(continued)*

(o) Lease payments

Lease payments made over the term of the lease are reduced from the lease liability under IFRS 16. For lease payments associated with short term leases or leases of low value assets are recognised as an expense, over the term of the lease.

(p) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(q) Employee benefits

(i) Employees terminal benefits

UAE nationals employed by the Group are registered in the scheme managed by the General Pension and Social Security Authority. Contributions to that scheme are charged as an expense. Staff terminal benefits for expatriate employees are accounted for on the basis of their accumulated service at the reporting date and in accordance with the Group's internal regulations, which comply with the UAE Federal Labour Law.

(ii) Short term employee benefits

Short-term employee obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of a past service provided by the employee and the obligation can be estimated reliably.

(r) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to perform under the terms of the contract.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

The financial guarantee liability recognised in the consolidated financial statements is initially recognised at fair value.

Subsequent measurement

At the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15;

4 Significant accounting policies *(continued)*

(s) Acceptances

Acceptances have been considered within the scope of IFRS 9 Financial Instruments: Recognition and Measurement and are recognised as a financial liability in the statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities. Accordingly, there is no off balance sheet commitment for acceptances.

(t) Interest income and expense

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

4 Significant accounting policies *(continued)*

(t) Interest income and expense (continued)

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(u) Fee and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income including loan processing fees, investment management fees, placement fees and syndication fees, are recognised as the related services are provided. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fee and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(v) Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are presented in net investment income, net income from other financial instruments at fair value through profit or loss or other revenue based on the underlying classification of the equity investment.

(w) Foreign currency

Foreign currency transactions are recorded at rates of exchange ruling at the value date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions.

Forward foreign exchange contracts are translated into AED at mid-market rates of exchange at the reporting date. Foreign currency differences arising on translation are recognised in profit or loss. However, foreign currency differences arising from the translation of available-for-sale equity instruments are recognised in other comprehensive income.

4 Significant accounting policies *(continued)*

(x) Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following new and amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of a Business (Amendments to IFRS 3); and
- Definition of Material (Amendments to IAS 1 and IAS 8).

5 Financial risk management

Overview

The Group has exposure to the following risks from its business activities:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Group's Risk Management Framework. The Board has entrusted a number of managers with the risk management function along with setting up and monitoring the Group's credit, liquidity, operational and market risks, and setting market risk limits under which the Group's management operates.

The Group has further set up from within management, the Asset and Liability, ("ALCO") Executive committee, which are responsible for developing and monitoring the Group's risk management policies in their specified areas.

The Group has risk appetite / tolerance limits which is revised annually and monitored regularly.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits, implement controls, monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

5 Financial risk management *(continued)*

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

(a) Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations; and arises principally from the Group's loans and advances, due from banks, other financial institutions, non-trading debt instruments and certain other assets.

Management of credit risk

The Group's credit risk management framework includes:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the General Manager, Head of Credit, the Executive Committee, as deemed appropriate.
- Reviewing and assessing all credit exposures of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, segments, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for Investment at amortised cost).
- Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. Risk grades are subject to regular reviews.
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

The risk management team is responsible for the formulation of credit policies and processes in line with growth, risk management and strategic objectives.

In addition, the Group manages the credit exposure by obtaining collateral where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

Regular audits of Business Units and Bank credit processes are undertaken by internal audit function.

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Credit quality analysis

				2019 AED	2018 AED
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
Cash and bank balances					
Low-fair risk	48,032,641	-	-	48,032,641	69,844,945
Higher risk	-	-	-	-	-
Grade 8: Substandard	-	-	-	-	-
Grade 9: Doubtful	-	-	-	-	-
Grade 10: Loss	-	-	-	-	-
Total gross carrying amount	**48,032,641**	-	-	**48,032,641**	69,844,945
Loss allowance (Stage 1 + Stage 2)	-	-	-	-	-
Loss allowance (Stage 3)	-	-	-	-	-
Carrying amount	**48,032,641**	-	-	**48,032,641**	69,844,945

				2019 AED	2018 AED
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
Loans and advances to customers at amortised cost					
Low-fair risk	124,604,222	56,770,784	-	**181,375,006**	159,127,248
Higher risk	-	-	-	-	-
Grade 8: Substandard	-	-	368,721	**368,721**	307,667
Grade 9: Doubtful	-	-	510,841	**510,841**	23,594,338
Grade 10: Loss	-	-	92,297,117	**92,297,117**	82,576,672
Total Gross Carrying Amount	**124,604,222**	**56,770,784**	**93,176,679**	**274,551,685**	265,605,925
Loss allowance (Stage 1 + Stage 2)	(2,423,289)	(1,848,634)	-	**(4,271,923)**	(4,007,283)
Loss allowance (Stage 3)	-	-	(43,256,225)	**(43,256,225)**	(52,902,693)
Carrying amount	**122,180,933**	**54,922,150**	**49,920,454**	**227,023,537**	208,695,949

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

				2019 AED	2018 AED
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
Debt Securities at amortised cost					
Low-fair risk	163,839,516	-	37,126,378	**200,965,894**	242,033,497
Higher risk	-	-	-	-	-
Grade 8: Substandard	-	-	-	-	-
Grade 9: Doubtful	-	-	-	-	-
Grade 10: Loss	-	-	-	-	-
Total Gross Carrying Amount	**163,839,516**	-	**37,126,378**	**200,965,894**	242,033,497
Loss allowance (Stage 1 + Stage 2)	(1,530,369)	-	-	**(1,530,369)**	(910,163)
Loss allowance (Stage 3)	-	-	(13,053,161)	**(13,053,161)**	-
Carrying amount	**162,309,147**	-	**24,073,217**	**186,382,364**	241,123,334

Loans and advances to customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requests that corporate borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Security and Collaterals are bifurcated into following categories:

- Tangible: This includes Cash Margin, Fixed Deposits Under lien Mortgages over immovable assets, pledge of Shares, Commercial Pledge over movable assets.
- Non-tangible: Guarantees and all other collaterals not having any tangible worth / value.

Collateralisation of exposure is supported by proper documentation, charge (registered where required) etc. to ensure its enforceability/reliability.

The Group has collateral valuation guidelines which details the principles and frequency of valuation of securities. The Group monitors the market value of collateral and requests additional collateral in accordance with the underlying agreements. It also monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Loans and advances to customers (continued)

A refreshed valuations are obtained for properties with more frequency in cases where there are difficulties and hence reliance on the security is increasingly high. Where the Group accepts fixed assets e.g. property as collateral, these are adequately insured with the Group as loss payee, where-ever applicable. If corporate guarantees are accepted their tangible net worth are re-evaluated annually along with the annual review of facilities, where-ever applicable. All securities are held under the custody of an independent credit administration function.

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

• the remaining lifetime probability of default (PD) as at the reporting date; with
• the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

For retail portfolio historical payment behaviour of the exposure is evaluated to determine significant increase in credit risk.

In addition to the quantitative test based on movement of PD, the Group also applies experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results.

Credit risk grades

The Group allocates each corporate exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates.

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Credit risk grades (continued)

Each Borrower is assigned a credit risk grade on initial recognition based on available information about the borrower's financial information, securities provided to Group and other relevant qualitative information. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

The monitoring typically involves use of the following information.

Corporate exposures	Retail exposures	All exposures
- Information obtained during periodic review of customer files –	- Internally collected data on customer behavior	- Payment record – this includes overdue status as well as a range of variables about payment ratios
- Data from credit reference agencies, press articles, changes in external credit ratings		- Utilisation of the granted limit
- Quoted bond prices for the borrower where available		- Requests for and granting of forbearance
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities		- Existing and forecast changes in business, financial and economic conditions

Determining whether credit risk has increased significantly

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant differs for different types of lending, in particular between corporate and retail.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Group determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently.

When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group.
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. For loans secured by real estate collaterals, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Measurement of ECL (continued)

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are Banked on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity; and
- industry

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

Loans and advances to customers at amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total 2019**	Total 2018
	AED	**AED**	**AED**	**AED**	AED
Beginning of the period	2,822,787	1,184,496	52,902,693	56,909,976	33,774,195
Impact due to IFRS 9 adoption	-	-	-	-	28,537,029
	2,822,787	**1,184,496**	**52,902,693**	**56,909,976**	62,311,224
Transfers:					
Transfer from Stage 1 to Stage 2	-	844,188	-	**844,188**	(4,449)
Transfer from Stage 1 to Stage 3			2,973,397	**2,973,397**	221,103
Transfer from Stage 2 to Stage 1	(12,936)	-	-	**(12,936)**	-
Transfer from Stage 2 to Stage 3	-	-	53,984	**53,984**	(4,569,577)
Transfer from Stage 3 to Stage 2	-	(12,168)	-	**(12,168)**	-
Transfer from Stage 3 to Stage 1	-	-	143,016	**143,016**	(2,200,679)
Impact of change in provision	2,809,851	2,016,516	56,073,090	**60,899,457**	55,757,622
Impact of new loans	704,681	-	-	**704,681**	2,971,595
Recovery	(557,053)	(18,725)	(1,829,396)	**(2,405,174)**	(6,826,576)
Write Back					-
Write-offs					-
Transfer among stage itself	(534,190)	(146,160)	(10,990,466)	**(11,670,816)**	5,007,335
	2,423,289	**1,851,631**	**43,253,228**	**47,528,148**	56,909,976

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Loss allowance (continued)

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2019 represent the allowance account for credit losses and reflect the measurement basis under IAS 39.

Investments	**Stage 1**	**Stage 2**	**Stage 3**	**Total 2019**	Total 2018
	AED	**AED**	**AED**	**AED**	AED
Beginning of the period	910,163	-	-	**910,163**	-
Impact due to IFRS 9 adoption	-	-	-	-	590,352
	910,163	**-**	**-**	**910,163**	590,352
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	13,053,161	13,053,161	-
Transfer from Stage 2 to Stage 1	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-
Impact of change in provision	910,163	-	13,053,161	13,963,324	590,352
Impact of new investments	-	-	-	-	-
Recovery	-	-	-	-	-
Write Back	-	-	-	-	-
Write-offs	-	-	-	-	-
Transfer among stage itself	620,206	-	-	620,206	319,811
	1,530,369	-	**13,053,161**	**14,583,530**	910,163

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

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Gross maximum exposure	**2019** **AED**	2018 AED
Bank balances	**48,007,641**	69,843,265
Debt Securities	**202,128,246**	242,033,497
Investments at fair value through profit or loss	**249,580,820**	252,973,798
Loans and advances	**274,551,685**	265,605,925
Other assets	**58,937,714**	40,136,550
Contingent liabilities	**82,540,845**	99,250,977
Total credit risk exposure	**915,746,951**	969,844,012

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

Write-off policy

The Group writes off a loan or investment balance, and any related suspended interest and allowances for impairment losses, when the management determines that the loan or investment is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Collateral

Collateral is used to mitigate credit risk, as the secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations. Credit policy and procedures set out the acceptable types of collateral, as well as a process by which additional instruments and / or asset types can be considered for approval.

As at 31 December 2019, the Group held credit risk mitigants with an estimated value of AED 1,052,997,939 *(2018: AED 513,217,936)* against receivables from loans and advances and investments in the form of real estate collateral, other securities over assets, cash deposits and guarantees. The Group accepts sovereign guarantees and guarantees from well reputed local or international banks, well established local or multinational large corporate and high net-worth private individuals. Collateral generally is not held against placements with banks and other financial institutions, and no such collateral was held at 31 December 2019 or 31 December 2018.

The table below stratifies credit exposures from mortgage loans and advances to customers by ranges of loan-to-value (LTV) ratio:

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Collateral (continued)

LTV ratio	2019 AED	2018 AED
Less than 50%	**112,556,251**	52,255,932
51 – 70%	**22,105,475**	108,150,135
71 – 90%	**35,849,639**	8,032,271
91 – 100%	**149,212**	23,607,470
More than 100%	**56,362,960**	16,650,141
Total	**227,023,537**	208,695,949

The Group holds collateral against loans and advances in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of the borrowing and generally updated periodically as per the Group's policy.

An estimate of the fair value of collateral and other security enhancements held against loans and advances is shown below:

	2019 AED
Collateral against stage 1	**955,493,037**
Collateral against stage 2	**900,000**
Collateral against stage 3	**96,604,902**
Total value of collaterals and other credit enhancements	**1,052,997,939**

Concentrations of credit risk

The Group monitors concentrations of credit risk by industry sector and by geographic location. An analysis of concentrations of credit risk from loans and advances and bank balances at the reporting date is shown below:

	Loans and advances	
	2019 **AED**	2018 AED
Concentration by industry		
Real estate	**125,650,981**	127,324,864
Trading	**40,722,961**	16,391,385
Services	**2,345,597**	8,793,080
Construction	**1,800,678**	23,770,996
Financial institutions	**-**	700,000
Individuals	**31,801,745**	34,669,582
Transport	**8,011,013**	5,194,601
Others	**64,218,710**	48,761,417
Gross loans	**274,551,685**	265,605,925
Less: allowance for impairment	**(47,528,148)**	(56,909,976)
Carrying amount	**227,023,537**	208,695,949

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Notes to the consolidated financial statements

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Concentrations of credit risk (continued)

	Bank balances		Loans and advances		Debt Securities		Investments at FVTPL	
	2019	**2018**	**2019**	2018	**2019**	2018	**2019**	2018
	AED	**AED**	**AED**	AED	**AED**	AED	**AED**	AED
Concentration by sector:								
Public sector	-	-	-	-	37,126,378	66,126,379	-	-
Private sector	-	-	274,551,685	264,905,925	108,287,766	93,926,368	145,669,798	158,671,381
Financial institutions	48,032,641	69,844,945	-	700,000	55,551,750	81,980,750	103,016,554	94,302,417
Gross amount	**48,032,641**	**69,844,945**	**274,551,685**	**265,605,925**	**200,965,894**	**242,033,497**	**248,686,352**	**252,973,798**
Less: Allowance for ECL	-	-	(47,528,148)	(56,909,976)	(14,583,530)	(910,163)	-	-
Carrying amount	**48,032,641**	**69,844,945**	**227,023,537**	**208,695,949**	**186,382,364**	**241,123,334**	**248,686,352**	**252,973,798**

	Bank balances		Loans and advances		Debt Securities		Investment at FVTPL	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	AED	AED	**AED**	AED	**AED**	AED	**AED**	AED
Concentration by location:								
UAE	48,032,641	69,844,945	185,288,231	178,400,294	118,163,210	136,767,966	170,141,067	167,821,888
Europe	-	-	-	-	27,889,905	29,052,618	-	-
GCC	-	-	41,735,306	30,295,655	40,329,249	46,302,750	43,460,857	44,037,860
Arab world	-	-	-	-	-	29,000,000	-	-
North America	-	-	-	-	-	-	-	-
Asia	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	35,084,428	41,114,050
	48,032,641	**69,844,945**	**227,023,537**	**208,695,949**	**186,382,364**	**241,123,334**	**248,686,352**	**252,973,798**

5 Financial risk management (continued)

(a) ***Credit risk*** *(continued)*

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier.

Commitments and contingencies related credit risk

Credit risk arising from commitments and contingencies is disclosed in note 22 to the consolidated financial statements.

(b) ***Liquidity risk***

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Group's Board of directors sets the Group's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. Board approves the Group's liquidity policies and procedures. Treasury department manages the Group's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of the Group.

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

Management has diversified funding sources and closely monitors liquidity to ensure adequate funding. The Group maintains a portfolio of short-term liquid assets, largely made up of short-term liquid financial assets at fair value through profit or loss, and inter-bank placements to ensure that sufficient liquidity is maintained within the Group as a whole.

The Group relies on deposits from customers and banks as its primary sources of funding. Deposits from customers and banks generally have shorter maturities and a proportion of them are repayable on demand. The short-term nature of these deposits increases the Group's liquidity risk and the Group actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

5 Financial risk management *(continued)*

(b) ***Liquidity risk*** *(continued)*

The maturity profile of financial assets and liabilities at 31 December 2019 was as follows:

	Up to 3 months AED	3 months to 1 year AED	1 to 3 years AED	3 to 5 years AED	Over 5 years AED	Unspecified maturity AED	Total AED
Assets							
Cash and bank balances	18,332,641	29,700,000	-	-	-	-	48,032,641
Investments at FVTPL	245,770,568	-	-	-	-	-	245,770,568
Loans and advances	95,290,403	74,559,523	56,106,505	1,067,106			227,023,537
Investment at amortised cost	-	84,312,465	61,887,106	40,182,793	-	-	186,382,364
Derivative financial assets		-	58,530,174	-	-	-	58,530,174
Other assets	8,827,301	52,980,953	-	-	-	-	61,808,254
Non-financial assets	-	-	-	-	-	40,365,659	40,365,659
Total assets	**368,220,913**	**241,552,941**	**176,523,785**	**41,249,899**		**40,365,659**	**867,913,197**
Liabilities							
Customers' deposits	89,253,912	93,308,810	58,323,044	-	-	1,444,934	242,330,700
Due to banks and financial institutions	12,500,000	94,697,126	6,250,000	-	-	-	113,447,126
Derivative Financial Liabilities	-	-	9,959,119	-	-	-	9,959,119
Other liabilities	4,077,291	10,944,074	58,579,927				73,601,292
Total liabilities	**105,831,203**	**198,950,010**	**133,112,090**	**-**	**-**	**1,444,934**	**439,338,237**
On statement of financial position gap	**16,619,142**	**173,412,754**	**158,372,440**	**41,249,899**	**-**	**38,920,725**	**428,574,960**

5 Financial risk management *(continued)*

(b) ***Liquidity risk*** *(continued)*

The maturity profile of financial assets and liabilities at 31 December 2018 was as follows:

	Up to 3 months AED	3 months to 1 year AED	1 to 3 years AED	3 to 5 years AED	Over 5 years AED	Unspecified maturity AED	Total AED
Assets							
Cash and bank balances	35,153,559	29,691,386	5,000,000	-	-	-	69,844,945
Investments at FVTPL	-	252,973,798	-	-	-	-	252,973,798
Loans and advances	81,530,175	55,594,627	68,849,683	2,721,464	-	-	208,695,949
Investment at amortised cost	20,000,000	34,429,000	186,694,334	-	-	-	241,123,334
Derivative financial assets	-	-	48,473,450	-	-	-	48,473,450
Other assets	11,207,973	4,503,999	26,184,940	-	-	-	41,896,912
Non-financial assets	-	-	-	-	-	12,554,656	12,554,656
Total assets	147,891,707	377,192,810	335,202,407	2,721,464	-	12,554,656	875,563,044
Liabilities							
Customers' deposits	79,683,468	102,752,087	78,692	-	-	639,570	183,153,817
Due to banks and financial institutions	20,833,333	133,664,200	40,557,717	-	-	-	195,055,250
Derivative Financial Liabilities	-	-	10,252,965	-	-	-	10,252,965
Other liabilities	3,869,495	21,485,219	58,787,133	-	-	870,022	85,011,869
Total liabilities	104,386,296	257,901,506	109,676,507	-	-	1,509,592	473,473,901
On statement of financial position gap	43,505,411	119,291,304	225,525,900	2,721,464	-	11,045,064	402,089,143

5 Financial risk management *(continued)*

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

Market risk is the risk that the fair value and future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

There has been no change in the manner in which the Group manages and measures market risk.

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 Group is exposed to interest rate risk on its interest bearing assets and liabilities.

The following table demonstrates the sensitivity of the statement of comprehensive income to a reasonably possible changes in interest rates, with all other variables held constant, of the Group's result for the year.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various interest rate scenarios. The Group assumes a fluctuation in interest rates of 500 basis points *(2018: 500 basis points)* and estimates the following impact on the profit for the year at that date:

	2019 Interest for the year AED	2018 Interest for the year AED
Fluctuation in yield	**7,708,130**	8,435,579

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 509,940,423 interest bearing assets at year end *(2018: AED 546,920,646)* and AED 355,777,826 interest bearing liabilities at year end *(2018: AED 378,209,067)*. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

The interest rate movements have an effect on retained earnings arising from increases or decreases in net interest income and the fair value changes reported in profit or loss.

5 Financial risk management *(continued)*

(c) ***Market risk*** *(continued)*

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the UAE Dirham. As at 31 December 2019, the Group had the following significant net exposures denominated in foreign currencies:

	Net spot position AED	Forward position AED	**Net Exposure 2019 AED**	Net exposure 2018 AED
Currency				
GBP	29,052,613	25,441,244	**3,611,369**	3,611,369

The exchange rate of AED against the US Dollar is pegged since November 1980 and the Group's exposure to currency risk is limited to that extent.

Other market price risk

The Company is exposed to equity price risk arising from its equity investments at fair value through profit & loss.

Sensitivity analysis

For all such investments, a 10% increase in the fair value of investment at fair value through profit or loss as at the reporting date would have increased net profit by AED 24.9 million (2018: AED 25.3 million). An equal change in the opposite direction would have decreased net profit by AED 24.9 million (2018: AED 25.3 million).

(d) ***Operational risk***

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage, to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Group has established a framework of policies and procedures to identify, assess, control, manage and report risks.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

5 Financial risk management *(continued)*

(d) ***Operational risk*** *(continued)*

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is cost effective.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Internal Audit Department. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

(e) ***Capital management***

The Group is licensed and regulated by the Central Bank of the UAE. The Central Bank's capital adequacy stipulation for finance companies is a minimum of 15%. The Group's capital adequacy ratio as at 31 December 2019 is 53.2% (2018: 53.7%) which is in line with the Group's policy of maintaining a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group's regulatory capital is analysed into two tiers.

- Tier 1 capital includes share capital, legal reserve, and retained earnings. The tier 1 capital should be a minimum of 12% of total risk weighted assets.
- Tier 2 capital includes revaluation reserve and cumulative changes in fair values. The tier 2 capital should be a maximum of 67% of tier 1 capital.

Risk weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's capital adequacy position at the end of the reporting year was as follows:

	2019	2018
	AED	AED
Capital base	**428,552,079**	402,013,960
Risk weighted assets	**806,245,682**	749,179,432
Capital adequacy (Total capital base/total risk weighted assets)	**53.2%**	53.7%

6 Use of estimates and judgements

(a) Key sources of estimation uncertainty

(i) Allowances for credit losses

Impairment losses are evaluated as described in accounting policy 4(a)(iii).

The Group evaluates impairment on loans and advances and investments on an on-going basis and a comprehensive review on a quarterly basis to assess whether an impairment charge should be recognised in the income statement. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment charge required. In estimating these cash flows, management makes judgements about the counterparty's financial situation and other means of settlement and the net realisable value of any underlying collateral. Such estimates are based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such impairment charges.

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns PDs to the individual grades
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

(ii) Determining fair values

The determination of fair value for financial assets and liabilities of which there is no observable market price requires the use of valuation techniques as described in accounting policy 4(b)(ix). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degree of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument *(note 5).*

6 Use of estimates and judgements *(continued)*

(b) Critical accounting judgements in applying the Group's accounting policies

Critical accounting judgements made in applying the Group's accounting policies include:

(i) Financial assets and liabilities classification

The Group's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances, such as in classifying financial assets as at fair value through profit or loss or as at fair value through other comprehensive income, the Group has determined that it meets the description as set out in accounting policy 4(b)(ii).

(ii) Valuation of financial instruments

The Group's accounting policy on fair value measurements is discussed in accounting policy 4(b)(ix).

Fair value hierarchy:

Fair value measurements recognised in the statement of financial position

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1**: Quoted market price (unadjusted) in an active market for an identical instrument. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions.

- **Level 2**: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- **Level 3**: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable input have a significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market priced or dealer priced quotations. For all other financial instruments the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

6 Use of estimates and judgements *(continued)*

(b) ***Critical accounting judgements in applying the Group's accounting policies*** *(continued)*

(ii) Valuation of financial instruments (continued)

Observable prices and model inputs are usually available in the market for listed equity securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1 AED	**Level 2 AED**	**Level 3 AED**	**Total AED**
At 31 December 2019				
Financial assets				
Investments at FVTPL	160,683,891	85,086,677	-	**245,770,568**
Derivative financial instruments	-	58,530,174	-	**58,530,174**
	160,683,891	**143,616,851**	-	**304,300,742**
Financial liabilities				
Derivative financial instruments	-	**9,959,119**	-	**9,959,119**
At 31 December 2018				
Financial assets				
Investments at FVTPL	174,022,698	78,951,100	-	252,973,798
Derivative financial instruments	-	48,473,450	-	48,473,450
	174,022,698	127,424,550	-	301,447,248
Financial liabilities				
Derivative financial instruments	-	10,252,965	-	10,252,965

Although the Group believes that its estimates of fair values are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair values.

Accounting classifications and fair values

All financial assets and liabilities are measured at amortised cost except for financial assets at fair value through profit or loss and Investment at FVOCI which are measured at fair value by reference to published price quotations in an active market or from prices quoted by counterparties or through use of valuation techniques.

6 Use of estimates and judgements *(continued)*

(b) ***Critical accounting judgements in applying the Group's accounting policies*** *(continued)*

Accounting classifications and fair values (continued)

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

The fair values of due from banks, customers' deposits and due to banks that are predominantly short-term in tenure and issued at market rates are considered to reasonably approximate their book value.

The Group estimates that the fair value of its loans and advances portfolio is not materially different from its book value. For loans considered impaired, expected cash flows, including anticipated realisation of collateral, were discounted using an appropriate rate and considering the time of collection, the net result of which is not materially different from the carrying value.

7 Cash and Bank balances

	2019	2018
	AED	AED
Cash in hand	**25,000**	1,680
Balances with the Central Bank of the UAE	**511,904**	**511,759**
Current account with banks	**14,235,245**	29,140,120
Fixed deposits with Islamic bank	**100,000**	1,000,000
Fixed deposits with non-Islamic bank	**33,160,492**	39,191,386
Cash and bank balances	**48,032,641**	69,844,945
Less: fixed deposit under lien*	**(7,560,492)**	(14,601,389)
Less: fixed deposits with original maturities over three months	**(25,700,000)**	(25,500,000)
Cash and cash equivalents	**14,772,149**	29,743,556

*An amount of AED 7,560,492 *(2018: AED 12,601,389)* represents fixed deposit collaterised against term loans (note 16). An amount of AED Nil *(2018: AED 2,000,000)* represents fixed deposit collaterised against an electronic payment service provided by a Bank in the UAE.

8 Loans & Advances, net

	2019 AED	2018 AED
Retail:		
Personal finance	**29,179,043**	31,775,110
Mortgage finance	**2,596,618**	2,898,390
	31,775,661	34,673,500
Corporate:		
Commercial finance	**39,100,966**	30,710,101
Mortgage finance	**203,675,058**	200,222,324
	242,776,024	230,932,425
Loans and advances	**274,551,685**	265,605,925
Less: provision for impairment of loans and advances		
Specific	**(43,256,225)**	(52,902,693)
Collective	**(4,271,923)**	(4,007,283)
	(47,528,148)	(56,909,976)
Loan and Advances, net	**227,023,537**	208,695,949

Movement in provision for loan losses during the year is as follows:

	2019 AED	2018 AED
At 1 January	**56,909,976**	33,774,195
Adjustment due to initial implementation of IFRS 9	-	28,537,029
Provided during the year	-	-
Reversed during the year	**(8,023,070)**	(5,401,248)
Write off	**(1,358,758)**	-
At 31 December	**47,528,148**	56,909,976

Following is the comparison between allowance for expected credit losses as per IFRS 9 and provision required as per Central Bank ('CB') of UAE requirements:

	As per IFRS 9	**As per CB UAE**	**Difference**
Collective (stage 1 & stage 2)	4,271,923	2,913,825	1,358,098
Specific (stage 3)	43,256,225	49,076,498	(5,820,273)
	47,528,148	**51,990,323**	**(4,462,175)**

Based on above analysis, an impairment reserve with respect to specific provision amounting to AED 5,820,273 is created in line with the requirements of Central Bank of UAE.

9 Debt Securities *(continued)*

	2019 AED	2018 AED
Debt investment measured at amortised cost		
Government bonds	-	29,000,000
Corporate bonds	**186,382,364**	212,123,334
	186,382,364	241,123,334

Movement in investments in debt securities as follows:

	2019 AED	2018 AED
Beginning of the year	**242,033,497**	204,548,731
Purchased during the year	**55,397,500**	154,719,992
Sold during the year	**(95,302,750)**	(117,235,226)
Provision	**(14,583,530)**	(910,163)
Foreign exchange loss	**(1,162,353)**	-
End of the year	**186,382,364**	241,123,334

Movement in provision of debt investment during the year is as follows:

	2019 AED	2018 AED
Adjustment due to initial implementation of IFRS 9	-	590,352
Beginning of the year	**910,163**	-
Provided during the year	**13,673,367**	319,811
End of the year	**14,583,530**	910,163

10 Investments at fair value through profit or loss

This represents equity investments, primarily in listed entities, and are held for trading purposes.

Movement in investments classified at fair value through profit or loss as follows:

	2019 AED	2018 AED
Beginning of the year	**252,973,798**	297,441,346
Purchased during the year	-	3,500,000
Sold during the year	**(6,459,714)**	(20,595,303)
Changes in fair value	**(743,516)**	(27,372,245)
End of the year	**245,770,568**	252,973,798

Investments at fair value through profit or loss represent investments in equity shares and a fund during the year.

11 Investment property

This represents investments in properties acquired during the period.

Movement in investments classified at fair value through profit or loss as follows:

	2019 AED	2018 AED
Beginning of the year	**11,465,425**	11,703,470
Purchased during the year	**21,570,000**	-
Changes in fair value	**6,619,575**	(238,045)
End of the year	**39,655,000**	11,465,425

In 2012, the Group acquired an investment property under development, which was previously held as collateral against a loan, amounting to AED 11,703,470 (2018: AED 11,703,470). The fair value of the investment property amounted to AED 11,155,000 (2018: AED 11,465,425) as at 31 December 2019. In 2019, the Group acquired another property at an agreed price of AED 21,570,000 which was previously held as collateral against a loan amounting to AED 37,000,000. The fair value of the investment property amounted to AED 28,500,000 as at 31 December 2019. The fair value has been determined based on valuations performed by an accredited independent valuer with a recognised and relevant professional qualification and with recent experience in the location and category of properties being valued. The fair values have been determined using the sales comparison method which utilises evidence of transactions and / or current asking prices of similar sites. The fair value measurement for investment property has been categorised as level 3.

Amount recognised in profit and loss

Rental income recognised by the Group during 2019 was AED 762,357 (2018: AED 641,068) and was included in "Dividend and investment income, net". Maintenance expenses, included in other expenses was as AED 241,570 (2018: 212,348). Further, a fair value gain of AED 6,619,575 (2018: loss of AED 238,045) was recognised in profit or loss.

12 Derivative financial instruments

In the ordinary course of business, the company enters into various types of transactions that involve financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments include forwards and currency swaps.

The table below shows the fair values of derivative financial instruments at the reporting date, together with the notional amounts, analysed by terms to maturity. The notional amount is the value of the derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicators of either the market risk or the credit risk.

12 Derivative financial instruments *(continued)*

	Positive fair value AED	Negative fair value AED	Notional amounts Within 1 year AED	Over 1 year AED	Total AED
31 December 2019					
Equity derivative contracts	57,327,593	9,959,119	-	114,960,744	114,960,744
Foreign currency swaps	1,202,581	-	24,238,500	-	24,238,500
	58,530,174	**9,959,119**	**24,238,500**	**114,960,744**	**139,199,244**
31 December 2018					
Equity derivative contracts	47,476,366	10,252,965	121,731,085	-	121,731,085
Foreign currency swaps	997,084	-	-	24,450,816	24,450,816
	48,473,450	10,252,965	121,731,085	24,450,816	146,181,901

Equity derivative contracts

Equity forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Foreign currency swaps

Swaps are contractual agreements between two parties to exchange movements in foreign currency rates based on specified notional amounts.

13 Prepayments and other receivables

	2019 AED	2018 AED
Interest receivables on loans and advances	**24,165,579**	8,141,643
Interest receivables on fixed income securities	**15,454,595**	10,491,907
Interest receivable on bank deposits	**471,354**	383,969
Prepayments	**496,247**	1,760,363
Deposits	**408,849**	412,720
Other receivables	**20,811,630**	20,706,311
	61,808,254	41,896,913

14 Property, plant and equipment

	Furniture & Fixtures AED	Office Equipment AED	Total AED
Cost			
At 1 January 2018	2,362,968	2,565,855	4,928,823
Additions	46,800	172,978	219,778
Sale of property and equipment	-	(2,400)	(2,400)
At 31 December 2018	2,409,768	2,736,433	5,146,201
At 1 January 2019	2,409,768	2,736,433	5,146,201
Additions	-	12,510	12,510
Written off	-	(1,300)	(1,300)
At 31 December 2019	**2,409,768**	**2,747,643**	**5,157,411**
Accumulated depreciation			
At 1 January 2018	1,533,011	2,256,719	3,789,730
Charge for the year	187,729	156,300	344,029
Disposals	-	(1,605)	(1,605)
At 31 December 2018	1,720,740	2,411,414	4,132,154
At 1 January 2019	1,720,740	2,411,414	4,132,154
Charge for the year	193,234	144,750	337,984
At 31 December 2019	**1,913,974**	**2,556,164**	**4,470,138**
Net carrying amount			
At 31 December 2018	689,028	325,019	1,014,047
At 31 December 2019	**495,794**	**191,479**	**687,273**

15 Intangible assets

	Computer Software AED
2018:	
Cost:	
At 1 January 2018	5,203,921
Additions	10,430
At 31 December 2018	5,214,351
Accumulated amortisation:	
At 1 January 2018	5,080,406
Charge for the year	58,762
At 31 December 2018	5,139,168
2019:	
Cost:	
At 1 January 2019	5,214,351
Additions	-
At 31 December 2019	**5,214,351**
Accumulated amortisation:	
At 1 January 2019	5,139,168
Charge for the year	51,797
At 31 December 2019	**5,190,965**
Net book value:	
At 31 December 2018	75,183
At 31 December 2019	**23,386**

16 Term loans

	2019 AED	2018 AED
Loan (I)	**-**	25,000,000
Loan (II)	**31,250,000**	43,762,500
Loan (III)	**63,434,626**	70,042,750
Loan (IV)	**18,762,500**	56,250,000
Gross loans and Islamic financing	**113,447,126**	195,055,250

16 Term loans *(continued)*

Loan (I) This represents a loan obtained from a commercial bank in the UAE. The loan is repayable in twelve quarterly instalments commenced from November 2016 and carries interest at 3 months EIBOR plus 375 bps (subject to 5% minimum rate) per annum. Deposit of AED 5,101,389 (note 7) is collateralised against the loan. The loan was settled fully in year 2019.

Loan (II) This represents a loan obtained from a commercial bank in the UAE. The loan is repayable in twelve quarterly instalments commenced from August 2017 and carries interest at 3 months EIBOR plus 350 bps (subject to 5% minimum rate) per annum. Deposit of AED 5,000,000 (note 7) is collateralised against the loan.

Loan (III) This represents Murabaha agreement entered by the company with an Islamic bank to trade in shares with a maximum limit of AED 100,000,000. The loan bears an interest rate of 6 months EIBOR plus 3% margin per annum or 5% fixed margin per annum at the day of each withdrawal. Equity securities amounting to AED 114,636,080 are pledged against this loan. (31 December 2018: AED 127,918,532).

Loan (IV) This represents a loan obtained from a commercial bank in the UAE. The loan is repayable in twelve quarterly instalments from 28 April 2018 and carries interest at 3 months EIBOR plus 375 bps (subject to 5% minimum rate) per annum. Deposit of AED 2,500,000 (note 7) is collateralised against the loan.

17 Customers' deposits

	2019 AED	2018 AED
Customer Deposits - Term	**211,420,038**	173,394,462
Customer Deposits - CASA	**1,444,934**	639,570
Customer Deposits - Under Lien	**29,465,728**	9,119,785
Total deposits	**242,330,700**	183,153,817

18 Other payables

	2018 AED	2018 AED
Interest payable on customers' deposit	**8,001,094**	5,202,771
Margins received against letters of guarantee	**56,875,845**	73,397,987
Other payable	**8,068,378**	5,712,920
	72,945,317	84,313,678

19 Provision for employees' end of service benefits

The movement in the provision for employees' end of service benefits was as follows:

	2019 **AED**	2018 AED
At 1 January	**698,191**	722,119
Provided during the year	**49,569**	84,075
Paid during the year	**(91,785)**	(108,003)
At 31 December	**655,975**	698,191

20 Capital and reserves

	2019 **AED**	2018 AED
Authorised, issued and fully paid		
Ordinary shares 400,000,000 shares of AED 1 each	**400,000,000**	400,000,000

21 Legal reserve

In accordance with UAE Commercial Companies Law No. (2) of 2015 and the Group's Articles of Association, 10% of the profit for each year is transferred to the legal reserve until this reserve equals 50% of the paid-up share capital. The legal reserve is not available for distribution. There has been a transfer to the reserve during the year of AED 2,648,632 (2018: AED *304,604*).

22 Contingencies and commitments

	2019 **AED**	2018 AED
Letters of Guarantee	**82,540,845**	99,250,977

23 Dividend and investment income, net

	2019 **AED**	2018 AED
Interest income on debt securities	**17,745,781**	19,285,354
Rental income	**762,357**	641,068
Net unrealised loss on investments classified as fair value through profit or loss	**(743,516)**	(1,853,805)
Loss on sale of investments	**(1,404,234)**	(3,780,083)
Unrealised gain on derivatives	**10,350,570**	-
Foreign exchange loss	**(236,485)**	925,868
Total	**26,474,473**	15,218,402

24 General and administrative expenses

	2019 **AED**	2018 AED
Staff cost	**9,731,122**	11,634,905
Office rent	**599,871**	727,296
Depreciation	**337,984**	344,030
Amortisation	**51,796**	58,762
Consultancy charges	**1,312,717**	221,678
Management fee	**2,942,980**	-
Bank charges	**311,386**	279,886
IT Maintenance Cost	**682,197**	795,539
Other expenses	**2,611,891**	3,664,714
Total	**18,581,944**	17,726,810

25 Dividends

The General Assembly had declared dividends for the year ended 31 December 2017 (AED 0.07 per share) on ordinary shares amounting to AED 28,000,000 and paid during the year ended 31 December 2018.

26 Related Party Transactions

These represent transactions with related parties, i.e. associated companies, major shareholders, directors and key management personnel of the Company, entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the management.

Significant related party balances included in the consolidated statement of financial position are as follows:

	2019 **AED**	2018 AED
Shareholder:		
Bank balances	**40,705,906**	61,385,195
Term loans	**31,250,000**	81,250,000
Other receivables	**198,297**	226,171
Others:		
Investments	**50,002,249**	43,972,205
Deposits	**7,300,000**	15,745,600
Other payables	**963,600**	953,745
Key management personnel of the Group:		
Other payables	**15,625**	17,244

26 Related Party Transactions *(continued)*

Significant transactions with related parties during the year included in the consolidated statement of comprehensive income were as follows:

Shareholder:		
Interest expenses on term loans	**2,691,214**	5,693,093
Others:		
Interest expenses on deposits	**1,403,233**	953,745
Income from Investments	**6,030,045**	6,135,155
Interest income on bank deposits	**516,376**	318,412
Key management remuneration:		
Short term benefits (salaries, benefits and bonuses)	**800,638**	1,500,597

27 Subsequent events

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread globally, causing disruptions to businesses and economic activity as well as loss of human life. The Group considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable at this stage to provide a quantitative estimate of the potential impact of this outbreak on the Group.