ABU DHABI FINANCE PJSC (private)

Reports and financial statements for the year ended 31 December 2019

THIS DOCUMENT HAS BEEN DULY APPROVED AND SIGNED IN ACCORDANCE WITH THE APPLICABLE LAWS AND REGULATIONS

ABU DHABI FINANCE PJSC (private)

Reports and financial statements
for the year ended 31 December 2019

Directors' report
for the year ended 31 December 2019

The Directors submit their report on the activities of Abu Dhabi Finance PJSC (private) for the year ended 31 December 2019 together with the audited financial statements.

Principal activity

Abu Dhabi Finance PJSC (private) (the "Company") was established on 5 October 2008 as a Private Joint Stock Company in accordance with UAE Federal Law No. (8) of 1984, as amended, and the provisions of Federal Law No. (2), of 2015.

The Company was licensed by the Central Bank of UAE on 9 October 2008 to operate as a finance company and is primarily engaged in mortgage lending. The registered office of the company is located at the Aldar HQ Building, 7th Floor, P.O. Box 107616, Emirate of Abu Dhabi, United Arab Emirates.

Business performance

The Company closed the year with a net profit of AED 9 million (2018: profit of AED 13 million). The Company's gross loans and receivables reached AED 1,307 million in 2019 (2018: AED 1,291 million), an increase of 1.2% over 2018. The commercial loan book grew 3% to AED 367 million (2018: 356 million) and now represent 28% of the total loan book. The Company recorded a 7.5% increase in operating income-generating AED 61.6 million in 2019 (2018: AED 57.3 million). The Company's impairment charge increased during the year as our commercial clients continued to face cash flow challenges in their businesses. The company continues to invest in digitization, diversification of business, stable long term funding solution and people resulting in a 4% increase of operating expenses during the year.

Results

The financial position of the Company as of 31 December 2019, together with its statement of profit or loss, changes in equity and cash flows for the year then ended are set out in the accompanying financial statements.

Share capital

The authorised, issued and paid up share capital of the company comprises 500,000,000 shares of AED 1 each.

The Directors who served during the year were:

1. Saed Asaad Ahmed Arar, Chairman
2. Ioannis Karadimitris, Vice Chairman
3. Mohamed Abdul Hameed Mohamed Al Mahmoud, Director
4. Antoun Ghanem, Director
5. Ma'an Al Awlaqi, Director
6. Gregory Howard Fewer, Director
7. Al Sadig Al Magboul, Director
8. Kelly Michele Thomson, (Vice Chairman – resigned)
9. Amro Saed Menhali, (Director - resigned)

Directors' report
for the year ended 31 December 2019 (continued)

Auditors

The financial statements have been audited by Deloitte & Touche (M.E.) who retire and, being eligible, offer themselves for reappointment.

Acknowledgement

The Directors wish to specially recognise the co-operation extended by every member of the Company and thank them for their ongoing contribution. The directors are also thankful for the support received from the Central Bank of the UAE, various Ministries of the UAE Government, the Company's bankers and the Company's valued customers.

On behalf of the Board

Director
10 March 2020

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ABU DHABI FINANCE PJSC (private)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Abu Dhabi Finance PJSC (private) (the "Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Company's 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 pages 1 and 2. The other information does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

Other Matter

The Company's financial statements as at 31 December 2018 were audited by another auditor whose report dated 25 March 2019 expressed an unmodified opinion thereon.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ABU DHABI FINANCE PJSC (private) (continued)

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the articles of association of the Company and UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risk, 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ABU DHABI FINANCE PJSC (private) (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- the financial statements of the Company have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Company has maintained proper books of account;
- the financial information included in the Directors' report is consistent with the Company's books of account;
- as disclosed in note 19 to the financial statements, the Company has not purchased or invested in shares during the financial year ended 31 December 2019;
- note 8 to the financial statements of the Company discloses material related party transactions, and the terms under which they were conducted;
- based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company 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 of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2019.
- as disclosed in note 24 to the financial statements, the Company has not made any social contributions during the year.

Deloitte & Touche (M.E.)

Obada Alkowatly
Registration No. 1056
10 March 2020
Abu Dhabi
United Arab Emirates

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Statement of financial position
as at 31 December 2019

	Notes	2019 AED'000	2018 AED'000
ASSETS			
Cash and deposits with banks	**6**	**45,995**	82,984
Loans and advances (net)	**7**	**1,272,564**	1,262,851
Property and equipment	**9**	**682**	300
Right of use assets	**10**	**5,410**	-
Intangible assets	**11**	**2,463**	2,483
Properties held for sale	**13**	**8,149**	1,450
Other assets	**12**	**17,023**	2,814
Total assets		**1,352,286**	1,352,882
LIABILITIES AND EQUITY			
Liabilities			
Due to government	**14**	**748,574**	728,572
Due to bank	**15**	**78,666**	97,625
Customers' deposits	**16**	**35,000**	35,000
Employees' end of service benefits	**17**	**2,660**	2,920
Other liabilities	**18**	**26,625**	26,862
Total liabilities		**891,525**	890,979
Equity			
Share capital	**19**	**500,000**	500,000
Statutory reserve	**20**	**17,017**	16,131
Impairment reserve – General	**21**	**-**	3,423
Impairment reserve – Specific	**21**	**1,564**	873
Accumulated losses		**(57,820)**	(58,524)
Total equity		**460,761**	461,903
Total liabilities and equity		**1,352,286**	1,352,882

Saed Asaad Ahmed Arar
Chairman

Christopher Taylor
Chief Executive Officer

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

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Statement of profit or loss
for the year ended 31 December 2019

	Notes	2019 AED'000	2018 AED'000
Interest income	22	84,819	76,346
Interest expense	23	(25,679)	(23,296)
Net interest income		**59,140**	53,050
Fees, commission and other income		5,830	7,575
Fees and commission expense		(3,401)	(3,231)
Operating income		**2,429**	4,344
Impairment charge on loans and advances	28	(8,739)	(2,295)
Impairment charge on properties held for sale	13	-	(300)
General and administrative expenses	24	(42,518)	(40,903)
Amortization and depreciation	9, 10, 11	(1,454)	(510)
Profit for the year		**8,858**	13,386

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

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Statement of changes in equity
for the year ended 31 December 2019

	Share capital AED'000	Statutory reserve AED'000	Impairment reserve - General AED'000	Impairment reserve - Specific AED'000	Accumulated losses AED'000	Total equity AED'000
Balance at 1 January 2018	500,000	14,792	-	-	(55,775)	459,017
Impact of adopting IFRS 9 at 1 January 2018	-	-	3,161	5,376	(8,537)	-
Balance at 1 January 2018 (restated)	500,000	14,792	3,161	5,376	(64,312)	459,017
Profit for the year	-	-	-	-	13,386	13,386
Transfer from retained earnings to impairment reserve during the year	-	-	262	(4,503)	4,241	-
Transfer from retained earnings to statutory reserve during the year	-	1,339	-	-	(1,339)	-
Dividends paid (note 26)	-	-	-	-	(10,500)	(10,500)
Balance at 31 December 2018	500,000	16,131	3,423	873	(58,524)	461,903
Balance at 1 January 2019	**500,000**	**16,131**	**3,423**	**873**	**(58,524)**	**461,903**
Profit for the year	-	-	-	-	**8,858**	**8,858**
Transfer from retained earnings to impairment reserve during the year	-	-	**(3,423)**	**691**	**2,732**	-
Transfer from retained earnings to statutory reserve during the year	-	**886**	-	-	**(886)**	-
Dividends paid (note 26)	-	-	-	-	**(10,000)**	**(10,000)**
Balance at 31 December 2019	**500,000**	**17,017**	**-**	**1,564**	**(57,820)**	**460,761**

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

Statement of cash flows
for the year ended 31 December 2019

	2019	2018
	AED'000	AED'000
Cash flows from operating activities		
Profit for the year	**8,858**	13,386
Adjustments for:		
Interest income on deposits	**(671)**	(3,282)
Interest expense	**25,679**	23,296
Impairment charge on loans and advances, net	**8,739**	2,295
Charge on employees' end of service benefits	**493**	603
Depreciation of property and equipment	**264**	419
Loss on write off of property and equipment and intangible assets	**140**	1,282
Amortisation of intangible assets and right of use assets	**1,190**	91
Amortisation of transaction costs on due to bank	**79**	-
Impairment loss on property held for sale	-	300
	44,771	38,390
Changes in operating assets and liabilities		
Loans and advances	**(25,154)**	(62,250)
Other assets (excluding accrued interest)	**(14,373)**	2,121
Other liabilities (excluding accrued interest)	**(6,618)**	(5,548)
Cash used for operations	**(1,374)**	(27,287)
Interest received	**836**	3,296
Interest paid	**(4,773)**	(5,622)
End of service benefit payments	**(753)**	(271)
Net cash used in operating activities	**(6,064)**	(29,884)
Cash flows from investing activities		
Payment for purchase of property and equipment	**(786)**	(45)
Purchase of intangible assets	-	(1,123)
Restricted deposits	**4,488**	12,987
Net cash generated from investing activities	**3,702**	11,819
Cash flows from financing activities		
Proceeds from new loan	**34,213**	-
Repayment of medium term loan	**(53,250)**	(53,250)
Dividends paid	**(10,000)**	(10,500)
Repayment of lease liability	**(1,102)**	-
Net cash used in financing activities	**(30,139)**	(63,750)
Net decrease in cash and cash equivalents	**(32,501)**	(81,815)
Cash and cash equivalents at the beginning of the year	**64,840**	146,655

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

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Cash and cash equivalents at the end of the year (note 6)	**32,339**	64,840

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

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1 General information

Abu Dhabi Finance PJSC (private) (the "Company") was registered on 5 October 2008 as a Private Joint Stock Company in accordance with United Arab Emirates (UAE) Federal Law No. (8) of 1984, as abrogated by UAE Federal Law No. (2) of 2015, and the provisions of Federal Law No. (10) of 1980.

The Company was licensed by the Central Bank of UAE on 9 October 2008 to operate as a finance company and is primarily engaged in residential and commercial mortgage lending. The Company provides mortgage financing to customers of developers including Aldar Properties PJSC (Public) who is also a shareholder of the Company. The activities of the Company are conducted in accordance with and within the provisions of its Memorandum and Articles of Association. The registered office of the Company is located at Aldar HQ Building, 7th Floor, P.O Box 107616, Emirate of Abu Dhabi, U.A.E.

The shareholders of the Company and their respective shareholding are as follows:

Mubadala Development Company PJSC (Public)	52%
Aldar Properties PJSC (Public)	32%
Abu Dhabi Commercial Bank PJSC (Public)	16%

2 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the applicable provision of the Articles of Association of the Company and the UAE Federal Law No. (2) of 2015.

These financial statements are prepared and presented in UAE Dirhams (AED), which is the Company's functional and presentation currency. All values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

The financial statements have been prepared on the historical cost basis, except for the derivative financial instruments, which are measured at fair value through profit or loss.

3 Adoption of new and revised standards

3.1 New and revised IFRSs that are effective for the current year

In the current year, the Company has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019. The nature and effect of these changes are disclosed in Note 3.3 of the financial statements.

The following new and revised IFRSs that are mandatorily effective for accounting periods that begins on or after 1 January 2019 have also been adopted by the Company. The application of these revised IFRSs has not had any material impact on the disclosures or on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

Notes to the financial statements
for the year ended 31 December 2019 (continued)

3 Adoption of new and revised standards (continued)

3.1 New and revised IFRSs that are effective for the current year (continued)

- Amendments to IFRS 9 *Prepayment Features with Negative Compensation and Modification of financial liabilities*
- Amendments to IAS 28 *Investment in Associates and Joint Ventures: Relating to long-term interests in associates and joint ventures*
- Amendments to IAS 19 *Employee Benefits Plan Amendment, Curtailment or Settlement*
- IFRIC 23 *Uncertainty over Income Tax Treatments*
- Annual Improvements to IFRSs 2015-2017 Cycle: Amendments to IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*

3.2 Standards and interpretations in issue but not yet effective and not early adopted

The Company has not early adopted the following new and revised IFRSs that have been issued but are not yet effective.

New and revised IFRSs	**Effective for annual periods beginning on or after**
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	1 January 2020
Amendment to IFRS 3 *Business Combinations* relating to definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8 relating to definition of “material”	1 January 2020
IFRS 17 *Insurance Contracts*	1 January 2021
Amendments to IFRS 10 *Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these IFRSs and amendments will be adopted in the financial statements in the initial period when they become mandatorily effective. Management assessed that adoption of these amendments will not have a significant impact on the Company’s financial statements.

Notes to the financial statements
for the year ended 31 December 2019 (continued)

3 Adoption of new and revised standards (continued)

3.3 Changes in accounting policies

3.3.1 Impact of application of IFRS 16 *Leases*

In the current year, the Company, for the first time, has applied IFRS 16 *Leases* (as issued by the IASB in January 2016). IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease and requires the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The date of initial application of IFRS 16 for the Company is 1 January 2019. The Company has applied IFRS 16 using modified retrospective approach, which allowed the Company not to restate comparative periods for the effect of the adoption.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

	Increase (decrease) AED'000
Right-of-use assets	**4,582**
Lease liability	**4,582**

IFRS 16 transition disclosures also require the Company to present the following reconciliation:

	AED'000
Operating lease commitments disclosed as of 31 December 2018	**5,339**
Effect of discounting using the lessee's incremental borrowing rate at the date of initial application	**(757)**
Lease liability as at 1 January 2019	**4,582**

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3 Adoption of new and revised standards (continued)

3.3 Changes in accounting policies (continued)

3.3.2 Significant accounting policies introduced on adoption of IFRS 16

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangement in which it is the lessee, except for short-term (defined as leases with a lease term of 12 months or less) and leases of low value asset. For these leases, the Company recognises the lease payments as an operating lease on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. This expense is presented within other expenses in the statement of profit or loss.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect the interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the period of lease term or useful life of the underlying asset whichever is shorter. The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as per the Company’s impairment policy for non-financial assets.

The Company has presented the right of use asset as “Right of use asset” and lease liabilities within ‘Other liabilities’ in the statement of financial position.

4 Summary of significant accounting policies

4.1 Cash and cash equivalents

Cash and cash equivalents include cash in hand, unrestricted balances held with banks and short term deposits with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in fair value, and are used by the Company in the management of its short-term commitments.

4. 2 Financial instruments

4.2.1 Recognition and initial measurement

Financial assets and financial liabilities are recognised in Company’s statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

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

4 Summary of significant accounting policies (continued)

4. 2 Financial instruments (continued)

4.2.2 Classification

Financial assets

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. Financial assets include 'Cash and deposits with banks', and 'Loans and advances', which are measured at amortised cost.

With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus transaction costs (except for financial asset carried at fair value through profit or loss). Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

On initial recognition, a financial asset is classified as measured at: (1) amortised cost, (2) fair value through other comprehensive income ("FVOCI") or (3) fair value through profit or loss ("FVTPL").

<u>Financial assets at amortised cost</u>

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order 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

<u>Financial assets at FVTOCI</u>

Debt instruments that meet the following conditions are measured subsequently at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the 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.

All other financial assets are classified as measured at FVTPL.

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

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

4 Summary of significant accounting policies (continued)

4. 2 Financial instruments (continued)

4.2.2 Classification (continued)

Business model assessment

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

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment 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 costs and profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company 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 Company considers;

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company’s claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

Financial liabilities

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

Financial liabilities that are not designated as FVTPL, are measured subsequently at amortised cost using the effective interest method.

4 Summary of significant accounting policies (continued)

4. 2 Financial instruments (continued)

4.2.3 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statements of the financial position when, and only when, the Company currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

4.2.4 Impairment

The Company recognises loss allowances for expected credit losses (ECL) on ‘cash and deposits with banks’, ‘loans and advances’ and loan commitments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Equity instruments are not subject to impairment under IFRS 9.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

Measurement of ECL

Credit loss allowances are measured using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be impaired, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

- Stage 3 – Financial instruments that are considered to be impaired are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

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

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD)

4 Summary of significant accounting policies (continued)

4. 2 Financial instruments (continued)

4.2.4 Impairment (continued)

Measurement of ECL (continued)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Details of these statistical parameters/inputs are as follows:

- PD – the Probability of default is an estimate of the likelihood of default over a given time horizon.
- LGD – the Loss given default 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.
- EAD – the Exposure at default is an estimate of the Exposure at a future default date, taking into account expected changes in the Exposure after the reporting date

ECL is probability weighted estimate of credit losses, which are as the present value of all cash shortfall i.e., the difference between the cash flows in accordance with the contract and the cash flow that the Company expects to receive.

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset. If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition.
- This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

4 Summary of significant accounting policies (continued)

4. 2 Financial instruments (continued)

4.2.4 Impairment (continued)

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). 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 Company on terms that the Company 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.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision; and
- debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount of these assets is stated at fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'net impairment charge' in the statement of profit or loss. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

4 Summary of significant accounting policies (continued)

4. 2 Financial instruments (continued)

4.2.4 Impairment (continued)

Central Bank of UAE ("CBUAE") provision requirements

As per the CBUAE notice no. CBUAE/BSD/2018/458 dated 30 April 2018, clause 6.4, 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.

4.2.5 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Company 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.

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 Company 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 affects 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 FVTOCI does not result in derecognition of the financial asset, then the Company 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.

4 Summary of significant accounting policies (continued)

4. 2 Financial instruments (continued)

4.2.5 Modifications of financial assets and financial liabilities (continued)

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss.

4.2.6 Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the assets 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 it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial liabilities

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

4.3 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 Company has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Company 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.

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

4 Summary of significant accounting policies (continued)

4.3 Fair value measurement (continued)

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value on 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 for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

4.4 Derivative financial instruments

Derivatives are initially recognised, at fair value. Any directly attributable transaction costs are recognized in profit and loss and other comprehensive income. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are generally recognized in profit and loss. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative or using valuation techniques, mainly discounted cash flow models.

Derivative financial instruments with positive market values (unrealised gains) are included in other assets, and derivative financial instruments with negative market values (unrealised losses) are included in other liabilities.

Changes in fair value of derivative financial instruments are recognized in statement of profit or loss as part of interest expense.

4.5 Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses, if any.

Cost includes expenditure that are directly attributable to the acquisition of the asset. Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance is expensed in the statement of profit or loss incurred.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within other income in the statement of profit or loss.

4 Summary of significant accounting policies (continued)

4.5 Property and equipment (continued)

Depreciation is computed on a straight-line basis over the estimated useful lives of the depreciable assets as follows:

Leasehold improvements	Up to 10 years
Furniture and fixture	4 years
Office equipment	4 years
Computer equipment	3 years

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

4.6 Intangible assets

Intangible assets, which have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses, if any. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

The intangible assets are amortised on a straight-line basis over their estimated useful live. Intangible assets mainly include computer software with estimated useful lives of 3-5 years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

4.7 Properties held for sale

Properties held for sale comprise foreclosed properties whose carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. Such properties are initially measured and recognised at the lower of fair value less cost to sell and the carrying amount of the loan (net of impairment allowance).

No depreciation is provided in respect of properties held for sale. Any subsequent write-down of the acquired properties to fair value less costs to sell is recorded as an impairment loss and included in the statement of profit or loss. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the statement of profit or loss.

4.8 Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units (CGUs).

4 Summary of significant accounting policies (continued)

4.8 Impairment of non-financial assets (continued)

The recoverable amount of an asset or CGU 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 pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in statement of profit or loss and other comprehensive income.

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 or amortisation, if no impairment loss had been recognised.

4.9 Employees' end of service benefits

Defined benefit plan

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

Defined contribution plan

Pension contributions are made in respect of UAE national employees to Abu Dhabi Retirement Pensions and Benefits Fund in accordance with the UAE Federal Law No. (2) of 2000. Such contributions are charged to the statement of profit or loss during the employees' period of service.

The Company's obligations are limited to those contributions, which are expensed when due.

4.10 Interest income and expense

Interest income and interest expenses are recognised in the statement of profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated stream of future cash payments or receipts, without consideration of future credit losses, over the expected life of the financial instrument to the carrying amount of financial asset or financial liability on initial recognition.

The average estimated life of the mortgage loans is estimated at four years *(2018: four years)*.

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

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

4 Summary of significant accounting policies (continued)

4.11 Fee and commission income and expense

Fee and commission income which are not integral to the effective interest rate on a financial assets are recognised as the related services are performed, or on completion of an act to which the fee relates.

Fee and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

4.12 Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

The leases entered into by the Company as lessee are primarily operating leases. Operating lease payments are recognised as an expense on a straight line basis over the lease term.

Above policy was applicable for year ended 31 December 2018 and replaced by IFRS 16 for year ended 31 December 2019 as per note 3.3.2.

4.13 Provisions

A provision is recognised if, as a result of a past event, the Company 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 pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

A provision for onerous contract is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract.

4.14 Foreign currency transactions and balances

Transactions in foreign currencies are translated into functional currency of the Company at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in statement of profit or loss and other comprehensive income.

5 Use of judgments and estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The significant judgments and estimate made by management are summarised as follows:

5.1 Impairment losses on loans and advances

The allowance for loan losses is established through charges to the statement of profit or loss in the form of an allowance for expected credit losses. The key assumptions revolve around estimates of future cash flows from customers' accounts, their timing and the expected proceeds from the realisation of property held as security for a loan. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. In addition, the management considers how appropriate past trends and patterns might be in the current economic situation and make any adjustment they believe are necessary to reflect the current conditions.

Significant factors affecting the estimates on the ECL model include:

- Assessment whether the credit risk of an asset has significantly increased, taking into account qualitative and quantitative reasonable and supportable forward looking information
- Definition of default
- Establishing groups of assets with similar credit characteristics when their ECL is assessed on a collective basis
- Judgement applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

5.2 Estimation of expected life of loans

In order to determine the effective interest rate applicable to loans, an estimate is made as to the expected life of loan and accordingly cash flows over the contractual maturity and expected life of loan are taken into account to determine the effective interest rate. These estimates are based on management's past experience and economic environment and are reviewed regularly. The accuracy of the effective interest rate applied would be compromised by any difference between actual borrower behavior and that predicted.

5.3 Discounting of lease payments

The lease payments are discounted using the Company's incremental borrowing rate. Management has applied judgments and estimates to determine the incremental borrowing rate at the commencement of lease by using its credit spread from similar arrangements and the Emirates Interbank Offered Rate ("EIBOR") applicable to the remaining lease term as a reference yield.

Notes to the financial statements
for the year ended 31 December 2019 (continued)

6 Cash and deposits with banks

For the purpose of the statement of cash flows, cash and cash equivalents have been calculated as follows:

	2019 AED'000	2018 AED'000
Cash and deposits with banks	**45,995**	82,984
Less: Restricted deposits	**(13,656)**	(18,144)
Cash and cash equivalents	**32,339**	64,840

As at 31 December 2019, deposits of AED 3,500 thousand and AED 10,156 thousand (*2018: AED 3,500 thousand and AED 14,644 thousand*) have been pledged against guarantees issued by banks on behalf of the Company in favor of the Central Bank of the UAE and the medium term loan, respectively.

Deposits with banks are placed with financial institutions in the UAE, and at the reporting date, carried interest ranging from 1.17% to 2.15% (*2018: 1.17% to 3.50%*) per annum.

As at 31 December 2019, cash and deposits with banks include balances held with Abu Dhabi Commercial Bank ("ADCB"), a shareholder of the Company, which are disclosed in note 8.

7 Loans and advances (net)

	2019 AED'000	2018 AED'000
Residential mortgages		
- Completed properties	**926,525**	926,384
- Properties under construction	**136**	5,593
Commercial mortgages		
- Completed properties	**357,614**	359,772
- Properties under construction	**23,621**	-
	1,307,896	1,291,749
Less: allowance for impairment		
Residential mortgages		
- Completed properties	**(10,959)**	(12,119)
- Properties under construction	**(91)**	(118)
Commercial mortgages		
- Completed properties	**(23,896)**	(16,661)
- Properties under construction	**(386)**	-
	1,272,564	1,262,851

Notes to the financial statements
for the year ended 31 December 2019 (continued)

7 Loans and advances (net) (continued)

The fair value of the real estate held as collateral against the loans and advances is AED 1,931,824 thousand as at 31 December 2019 (*2018: AED 2,210,694 thousand*).

8 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise of associated companies, key management personnel of the Company and the owner and its related entities. The terms of these transactions are approved by the Company's management and are made on terms agreed by the Board of Directors or management.

Parent and ultimate controlling party

Mubadala Development Company PJSC is the parent company and the ultimate controlling party of the Company is the Government of the Emirate of Abu Dhabi.

8.1 Related parties transactions during the year

	2019 **AED'000**	2018 AED'000
Rent and maintenance contract with Aldar Properties	**-**	1,591
Service fee	-	975
License cost	**-**	78
Interest expense on lease liability with Aldar Properties	**212**	**-**
Amortisation on right of use asset with Aldar Properties	**948**	**-**
Interest income on deposits with ADCB	**90**	101
Net gain (loss) from derivative financial instruments	**(607)**	(29)
Key management personnel		
Salaries and other benefits	**2,282**	2,233
End of service benefits	**91**	143
Interest income on loans drawn down	**80**	111
	2,453	2,487

Notes to the financial statements
for the year ended 31 December 2019 (continued)

8 Related parties (continued)

8.2 Related parties balances

	2019 AED'000	2018 AED'000
Due from related parties		
Bank deposits with ADCB	**9,759**	28,259
Right of use asset	**3,634**	-
	13,393	28,259
Due to related parties		
Lease liability	**(3,750)**	-
Interest rate swaps derivative liabilities with ADCB	**(578)**	(29)
Accrued rent for Aldar Properties	-	(192)
	(4,328)	(221)
Key management personnel		
Loans and advances (net)	**1,847**	3,580
Employees' end of service benefits	**937**	870

9 Property and equipment

	Furniture and fixtures AED'000	Office equipment AED'000	Leasehold premises AED'000	Computer equipment AED'000	Total AED'000
Cost					
At 1 January 2019	**2,761**	**689**	**3,796**	**6,466**	**13,712**
Additions	**675**	**-**	**-**	**111**	**786**
Write-offs	**(260)**	**(538)**	**(3,796)**	**(5,524)**	**(10,118)**
At 31 December 2019	**3,176**	**151**	**-**	**1,053**	**4,380**
Accumulated depreciation					
At 1 January 2019	**(2,641)**	**(683)**	**(3,794)**	**(6,294)**	**(13,412)**
Charge for the year	**(76)**	**(5)**	**-**	**(183)**	**(264)**
Write-offs	**181**	**551**	**3,794**	**5,452**	**9,978**
At 31 December 2019	**(2,536)**	**(137)**	**-**	**(1,025)**	**(3,698)**
Net book value					
At 31 December 2019	**640**	**14**	**-**	**28**	**682**
Cost					
At 1 January 2018	2,761	689	3,796	6,421	13,667
Additions	-	-	-	45	45
At 31 December 2018	2,761	689	3,796	6,466	13,712
Accumulated depreciation					
At 1 January 2018	(2,567)	(681)	(3,580)	(6,165)	(12,993)
Charge for the year	(74)	(2)	(214)	(129)	(419)
At 31 December 2018	(2,641)	(683)	(3,794)	(6,294)	(13,412)
Net book value					
At 31 December 2018	120	6	2	172	300

10 Right of use assets

	2019 AED'000
Cost	
At 1 January	**4,582**
Additions	**1,998**
At 31 December	**6,580**
Accumulated depreciation	
At 1 January	**-**
Charge for the year	**1,170**
At 31 December	**1,170**
Net book value	
At 31 December	**5,410**

11 Intangible assets

	IT software AED'000	Capital work in progress AED'000	Total AED'000
Cost			
At 1 January 2019	**14,611**	**1,903**	**16,514**
At 31 December 2019	**14,611**	**1,903**	**16,514**
Accumulated depreciation			
At 1 January 2019	**14,031**	**-**	**14,031**
Charge for the year	**20**	**-**	**20**
At 31 December 2019	**14,051**	**-**	**14,051**
Net book value			
At 31 December 2019	**560**	**1,903**	**2,463**

Notes to the financial statements
for the year ended 31 December 2019 (continued)

11 Intangible assets (continued)

	IT software AED'000	Capital work in progress AED'000	Total AED'000
Cost			
At 1 January 2018	14,154	2,519	16,673
Additions	457	666	1,123
Write off	-	(1,282)	(1,282)
At 31 December 2018	14,611	1,903	16,514
Accumulated depreciation			
At 1 January 2018	13,940	-	13,940
Charge for the year	91		91
At 31 December 2018	14,031	-	14,031
Net book value			
At 31 December 2018	580	1,903	2,483

12 Other assets

	2019 AED'000	2018 AED'000
Prepayments	**1,894**	636
Advances to employees	**346**	983
Accrued interest from deposits with banks	**327**	493
Derivative financial asset (note 18)	**-**	26
Others	**14,456**	676
	17,023	2,814

13 Properties held for sale

	2019 **AED'000**	2018 AED'000
Cost		
At 1 January	**1,750**	1,750
Additions	**6,699**	-
	8,449	1,750
Accumulated impairment		
At 1 January	**300**	-
Charge for the year	**-**	300
	300	300
Net book value	**8,149**	1,450

Property held for sale as at 31 December 2018 was acquired in September 2017. Under the guidelines of the Central Bank of the UAE, property acquired should be sold within 3 years period. Management is with the intention to dispose this property in the foreseeable future.

In 2019, the Company completed the properties repossession against a delinquent borrower, and recorded the properties at market value, based on the recent market price of similar units.

14 Due to Government

Due to government pertains to deposits from the Department of Finance amounting to AED 748,574 thousand as at 31 December 2019 *(2018: 728,572 thousand)*. The deposits have an original maturity of less than three months and at the reporting date carry an average effective interest rate of 2.30% *(2018: 2.71%)* per annum. These deposits are being rolled over every three months, upon maturity.

15 Due to bank

As at 31 December 2019, medium term loan facility amounted to AED 78,666 thousand *(2018: AED 97,625 thousand)*. The details of the term loans are as follows:

- In December 2017, the Bank availed a facility amount of AED 200,000 thousand, which is repayable in nine semi-annually instalments being the first instalment paid on 31 December 2016 and will mature on 31 December 2020. The interest is calculated by reference to three month EIBOR plus 175 basis points per annum.

- In March and September 2019, the Bank availed another facility with a local bank amounting to AED 200,000 thousand, of which, AED 35,000 thousand was drawn as at 31 December 2019, maturing in March 2024. The interest is calculated by reference to three month EIBOR plus 180 basis points per annum.

16 Customers' deposits

As at 31 December 2019, customers' deposits pertain to corporate term deposits amounting to AED 35,000 thousand *(2018: AED 35,000 thousand)*, which carry an effective interest rate of 2.55% *(2018: 2.55%)* per annum.

17 Employees' end of service benefits

	2019 **AED'000**	2018 AED'000
At 1 January	**2,920**	2,588
Charge for the year	**493**	603
Payments made during the year	**(753)**	(271)
	2,660	2,920

18 Other liabilities

	2019 **AED'000**	2018 AED'000
Accrued expenses	**9,323**	11,262
Lease liabilities	**5,367**	-
Derivative financial liability	**634**	-
Others	**11,301**	15,600
	26,625	26,862

18 Other liabilities (continued)

Derivative financial instruments – Interest rate swap

	Positive fair value AED'000	Negative fair value AED'000	Net fair value amount asset / (liability) AED'000	Notional amount AED'000
31 December 2019	**-**	**(634)**	**(634)**	**89,000**
31 December 2018	107	81	26	59,000

19 Share capital

	2019 AED'000	2018 AED'000
Authorized, issued and paid up share capital:		
500,000,000 shares *(2018: 500,000,000 shares)* of AED 1 each *(2018: AED 1 each)*	**500,000**	500,000

The Company has not purchased any shares during the year.

20 Statutory reserve

In accordance with the UAE Federal Law No. (2) of 2015, 10% of the net profit of the Company has to be transferred to a non-distributable legal reserve until such reserve equals 50% of the paid up share capital of the Company. Accordingly, AED 886 thousand *(2018: AED 1,339 thousand)* was transferred to the statutory reserve on 31 December 2019.

21 Impairment reserve

In accordance with CBUAE circular, in case where provision under CBUAE guidance exceeds provision under IFRS 9, the excess is required to be transferred to Impairment reserve. The details of the excess are as follows:

	2019 AED'000	2018 AED'000
Impairment reserve – Specific		
Specific provisions under Circular 28/2010 of CBUAE	**23,024**	14,981
Less: Stage 3 provisions under IFRS 9	**(21,460)**	(14,108)
Specific provision transferred to the impairment reserve	**1,564**	873

21 Impairment reserve (continued)

	2019 AED'000	2018 AED'000
Impairment reserve – General		
Collective provisions under Circular 28/2010 of CBUAE	**12,167**	13,917
Less: Stage 1 and Stage 2 provisions under IFRS 9	**(13,872)**	(10,494)
Collective provision transferred to the impairment reserve	**-**	3,423

22 Interest income

	2019 AED'000	2018 AED'000
Loans and advances	**84,148**	72,825
Deposits with financial institutions	**671**	3,282
Derivative financial instruments	**-**	239
	84,819	76,346

23 Interest expense

	2019 AED'000	2018 AED'000
Customers' deposits and due to government	**20,906**	17,674
Bank loans	**3,880**	5,622
Derivative financial instruments	**627**	-
Lease liabilities	**266**	-
	25,679	23,296

Notes to the financial statements
for the year ended 31 December 2019 (continued)

24 General and administrative expenses

	2019	2018
	AED'000	AED'000
Staff costs (note 25)	**29,532**	27,422
Professional fees	**6,698**	3,946
Information technology expenses	**3,176**	2,327
Advertisement and marketing	**1,134**	2,452
Occupancy cost	**958**	2,031
Communication	**525**	513
Operating lease expenses	**55**	62
Loss on write off of intangible assets	**-**	1,282
Other expenses	**440**	868
	42,518	40,903

There is no social contribution made by the Company during the year.

25 Staff costs

	2019	2018
	AED'000	AED'000
Salaries and other benefits	**27,740**	24,670
Staff bonus	**1,299**	2,149
Employees' end of service benefits	**493**	603
	29,532	27,422

26 Dividends

During 2019, cash dividends of AED 0.02 per ordinary share amounting to AED 10,000 thousand was approved by the shareholders at the general assembly meeting held on 27 March 2019.

During 2018, cash dividends of AED 0.02 per ordinary share amounting to AED 10,500 thousand was approved by the shareholders at the general assembly meeting held on 21 March 2018.

27 Contingencies and commitments

Loan commitments

	2019	2018
	AED'000	AED'000
Completed properties	**16,744**	40,179
Properties under construction	-	13,313
	16,744	53,492

Derivative financial instruments

As at 31 December 2019, the Company has outstanding interest rate swaps with a notional amount of AED 89,000 thousand *(2018: AED 59,000 thousand).*

28 Financial risk management

The Company has exposure to the following risk from financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk

28.1 Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has established sub-committees, which are responsible for developing and monitoring the Company's risk management policies. Governance structure implemented by the Board is as follows:

Board Risk Committee (BRC) oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

Board Audit Committee (BAC) is assisted in its oversight role by the 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 Audit Committee.

Board Credit Committee (BCC) is responsible for monitoring the credit policy and approving financial commitments resulting from defined discretion limits of the management.

Nomination and Reward Committee (NRC) is responsible for oversight and rigor on personnel matters including organizational structure, key appointments and remuneration structure for staff and senior management.

28 Financial risk management (continued)

28.1 Risk management framework (continued)

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

28.2 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances and certain other assets.

Management of credit risk

The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the company manages credit exposure relating to its trading activities by entering into collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure.

Special attention is directed towards the management of past-due financing assets through a dedicated collections team. The Company has established a policy framework within which potential, actual or technical delinquencies are identified and appropriately managed. Customer contact and litigation processes to optimize recovery from delinquent accounts are rigorously applied.

Credit risk measurement

In measuring the credit risk of loans and advances at a client level, the Company considers three components:

- the probability of default;
- the likely recovery ratio after recovery of collateral on defaulted obligations (loss given default); and
- the current exposure to the client (exposure at default).

The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

Notes to the financial statements
for the year ended 31 December 2019 (continued)

28 Financial risk management (continued)

28.2 Credit risk (continued)

Credit risk measurement (continued)

The Company assesses the PD based primarily upon the delinquency banding (days past due) of loans and advances as at each reporting date. The Company defines delinquency bandings as follows:

Stage 1	0 to 29 days past due
Stage 2	30 to 89 days past due
Stage 3	90 days or more due

Maximum exposure to credit risk before collateral held or other credit enhancements

The following table analyses the Company's maximum exposures to credit at their carrying amounts all of which are in the United Arab Emirates.

	2019	2018
	AED'000	AED'000
On balance sheet		
Cash and deposits with banks	**45,975**	82,975
Loans and advances	**1,272,564**	1,262,851
Other assets	**1,202**	1,027
	1,319,741	1,346,853
Off balance sheet		
Loan commitments	**16,744**	53,492

Notes to the financial statements
for the year ended 31 December 2019 (continued)

28 Financial risk management (continued)

28.2 Credit risk (continued)

Gross exposure

An analysis of the Company's credit risk exposure per class of financial asset and stage without taking into account the effects of any collateral or other credit enhancements is provided in the following tables.

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
31 December 2019				
Financial instruments at amortised cost:				
Cash and deposits with banks	**45,975**	**-**	**-**	**45,975**
Loans and advances	**1,199,945**	**51,681**	**56,270**	**1,307,896**
Other assets	**1,202**	**-**	**-**	**1,202**
	1,247,122	**51,681**	**56,270**	**1,355,073**
31 December 2018				
Financial instruments at amortised cost:				
Cash and deposits with banks	82,975	-	-	82,975
Loans and advances	1,158,914	88,387	44,448	1,291,749
Other assets	1,027	-	-	1,027
	1,242,916	88,387	44,448	1,375,751

Classification of cash and deposits held with banks as per their external ratings is as follows:

	2019 AED'000	2018 AED'000
Ratings		
A	**9,905**	28,259
AA-	**36,070**	29,716
BBB+	**-**	25,000
	45,975	82,975

Notes to the financial statements
for the year ended 31 December 2019 (continued)

28 Financial risk management (continued)

28.2 Credit risk (continued)

Gross exposure (continued)

The movement in gross exposure is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Financial instruments at amortised cost:				
Balance as at 1 January 2019	**1,158,914**	**88,387**	**44,448**	**1,291,749**
New financial assets originated that remained in Stage 1 as at 31 December	**238,689**	**-**	**-**	**238,689**
New financial assets originated that moved to Stage 2 and Stage 3 as at 31 December	**-**	**12,726**	**1,384**	**14,110**
Financial assets that have been derecognised	**(134,359)**	**(5,053)**	**(32,700)**	**(172,112)**
Transfer from Stage 1 to Stage 2	**(18,456)**	**18,456**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(20,797)**	**-**	**20,797**	**-**
Transfer from Stage 2 to Stage 1	**37,731**	**(37,731)**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(23,807)**	**23,807**	**-**
Transfer from Stage 3 to Stage 2	**-**	**1,340**	**(1,340)**	**-**
Movements in loans balance (excluding write off)	**(61,777)**	**(2,637)**	**2,179**	**(62,235)**
Amounts written off	**-**	**-**	**(2,305)**	**(2,305)**
Balance as at 31 December 2019	**1,199,945**	**51,681**	**56,270**	**1,307,896**
Balance as at 1 January 2018	1,167,521	39,421	22,915	1,229,857
New financial assets originated that remained in Stage 1 as at 31 December	301,623	-	-	301,623
New financial assets originated that moved to Stage 2 and Stage 3 as at 31 December	-	15,018	487	15,505
Financial assets that have been derecognised	(181,153)	(18,422)	(3,400)	(202,975)
Transfer from Stage 1 to Stage 2	(62,140)	62,140	-	-
Transfer from Stage 1 to Stage 3	(16,147)	-	16,147	-
Transfer from Stage 2 to Stage 1	911	(911)	-	-
Transfer from Stage 2 to Stage 3	-	(8,299)	8,299	-
Movements in loans balance (excluding write off)	(51,701)	(560)	358	(51,903)
Amounts written off	-	-	(358)	(358)
Balance as at 31 December 2018	1,158,914	88,387	44,448	1,291,749

Notes to the financial statements
for the year ended 31 December 2019 (continued)

28 Financial risk management (continued)

28.2 Credit risk (continued)

Expected credit loss

The table below summarises impairment allowance as at year end per class of exposure/asset, internal rating and stage:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
31 December 2019				
Financial instruments at amortised cost:				
Cash and deposits with banks	-	-	-	-
Loans and advances	**5,606**	**8,266**	**21,460**	**35,332**
Other assets	-	-	-	-
	5,606	**8,266**	**21,460**	**35,332**
31 December 2018				
Financial instruments at amortised cost:				
Cash and deposits with banks	-	-	-	-
Loans and advances	7,842	6,075	14,981	28,898
Other assets	-	-	-	-
	7,842	6,075	14,981	28,898

The Company's funds are deposited only in bank that is directly or comparably with the peer institutions, rated as investment grade by the global external rating agency. Accordingly, placements in this bank are considered low credit risk investments.

As of 31 December 2019 and 2018, the Company assessed that ECL on cash in bank and other assets is negligible as there is no default experience.

Notes to the financial statements
for the year ended 31 December 2019 (continued)

28 Financial risk management (continued)

28.2 Credit risk (continued)

The movement in impairment allowance is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Financial instruments at amortised cost:				
Balance as at 1 January 2019	**7,842**	**6,075**	**14,981**	**28,898**
New financial assets originated that remained in Stage 1 as at 31 December	**934**	**-**	**-**	**934**
New financial assets originated that moved to Stage 2 and Stage 3 as at 31 December	**-**	**585**	**1,384**	**1,969**
Financial assets that have been derecognised	**(483)**	**(106)**	**(9,666)**	**(10,255)**
Transfer from Stage 1 to Stage 2	**(872)**	**872**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(9,911)**	**-**	**9,911**	**-**
Transfer from Stage 2 to Stage 1	**191**	**(191)**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(11,172)**	**11,172**	**-**
Transfer from Stage 3 to Stage 2	**-**	**62**	**(62)**	**-**
Impact on ECL of exposures transferred within stages	**7,905**	**12,141**	**(3,955)**	**16,091**
Amounts written off	**-**	**-**	**(2,305)**	**(2,305)**
Balance as at 31 December 2019	**5,606**	**8,266**	**21,460**	**35,332**
Balance as at 1 January 2018	9,331	5,042	12,588	26,961
New financial assets originated that remained in Stage 1 as at 31 December	1,684	-	-	1,684
New financial assets originated that moved to Stage 2 and Stage 3 as at 31 December	-	420	136	556
Financial assets that have been derecognised	(1,100)	(678)	(1,959)	(3,737)
Transfer from Stage 1 to Stage 2	(1,295)	1,295	-	-
Transfer from Stage 1 to Stage 3	(7,176)	-	7,176	-
Transfer from Stage 2 to Stage 1	1	(1)	-	-
Transfer from Stage 2 to Stage 3	-	(3,352)	3,352	-
Impact on ECL of exposures transferred within stages	6,397	3,349	(5,954)	3,792
Amounts written off	-	-	(358)	(358)
Balance as at 31 December 2018	7,842	6,075	14,981	28,898

Notes to the financial statements
for the year ended 31 December 2019 (continued)

28 Financial risk management (continued)

28.2 Credit risk (continued)

Concentration risk

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

All mortgage loans of the Company are secured against residential and commercial properties within the United Arab Emirate, categorized by the market segment and product types, as follows:

	Salaried mass market AED'000	**Self-employed mass market AED'000**	**Others AED'000**	**Total AED'000**
31 December 2019				
Loans and advances:				
- Commercial properties	**14,270**	**30,121**	**312,562**	**356,953**
- Residential properties	**753,438**	**162,173**	**-**	**915,611**
Deposits with banks	**-**	**-**	**28,500**	**28,500**
Other assets	**-**	**-**	**1,202**	**1,202**
	767,708	**192,294**	**342,264**	**1,302,266**
31 December 2018				
Loans and advances:				
- Commercial properties	13,462	326,253	8,516	348,231
- Completed properties	750,294	157,290	1,528	909,112
- Properties under construction	5,508	-	-	5,508
Deposits with banks	-	-	50,000	50,000
Other assets	-	-	1,027	1,027
	769,264	483,543	61,071	1,313,878

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favourable to the Company. The negative market value amounts to AED 634 thousand *(2018: positive market value AED 26 thousand)*.

28 Financial risk management (continued)

28.3 Liquidity risk

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

Management of liquidity risk

Although the Company continues to be predominantly reliant on the funding from the Department of Finance, it is actively seeking to diversify its sources of funding and lengthen the tenor of its funding. The Company has an outstanding balance of AED 79,375 thousand *(2018: AED 97,625 thousand)* against funding facility with a commercial bank and customer deposit base of AED 35,000 thousand *(2018: AED 35,000 thousand).*

The BRC of the Company sets and monitors liquidity ratios and regularly revises and updates the company's liquidity management policies to ensure that the company is in a position to meet its obligations as they fall due.

Exposure to liquidity risk

The table below summarizes the maturity profile of the Company's financial instruments. The contractual maturities of the financial instruments have been determined on the basis of the remaining period at the end of reporting period to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

	Carrying amount AED'000	**Contractual cash flows AED'000**	**Less than 1 year AED'000**	**More than 1 year AED'000**
31 December 2019				
On balance sheet:				
Customers' deposits	**35,000**	**(39,529)**	**(39,529)**	-
Due to bank	**78,666**	**(84,160)**	**(53,831)**	**(30,329)**
Due to government	**748,574**	**(748,574)**	**(748,574)**	-
Other liabilities	**26,625**	**(26,625)**	**(21,693)**	**(4,932)**
	888,865	**(898,888)**	**(863,627)**	**(35,261)**
Off balance sheet:				
Loan commitments	**16,744**	**(16,744)**	**(16,744)**	-
31 December 2018				
On balance sheet:				
Customers' deposits	35,000	(39,529)	-	(39,529)
Due to bank	97,625	(102,749)	(56,924)	(45,825)
Due to government	728,572	(728,572)	(728,572)	-
Other liabilities	26,862	(26,862)	(22,914)	(3,948)
	888,059	(897,712)	(808,410)	(89,302)
Off balance sheet:				
Loan commitments	53,492	(53,492)	(53,492)	-

28 Financial risk management (continued)

28.3 Liquidity risk (continued)

Liquidity profile of assets and liabilities

The table below summarizes the maturity profile of the Company's assets and liabilities:

	Within 3 months AED'000	3 to 6 months AED'000	6 to 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
31 December 2019						
Assets						
Cash and deposits with banks	**33,745**	**-**	**12,250**	**-**	**-**	**45,995**
Loans and advances	**28,862**	**27,082**	**53,673**	**384,024**	**778,923**	**1,272,564**
Property and equipment	**-**	**-**	**-**	**682**	**-**	**682**
Right of use assets	**-**	**-**	**-**	**5,410**	**-**	**5,410**
Intangible assets	**-**	**-**	**-**	**2,463**	**-**	**2,463**
Other assets	**15,062**	**281**	**223**	**1,386**	**71**	**17,023**
Property held for sale	**-**	**8,149**	**-**	**-**	**-**	**8,149**
	77,669	**35,512**	**66,146**	**393,965**	**778,994**	**1,352,286**
Liabilities						
Customer deposits	**-**	**35,000**	**-**	**-**	**-**	**35,000**
Due to Government	**748,574**	**-**	**-**	**-**	**-**	**748,574**
Due to bank	**-**	**24,296**	**26,484**	**27,886**	**-**	**78,666**
Employees' end of service benefits	**-**	**-**	**-**	**2,660**	**-**	**2,660**
Other liabilities	**21,475**	**218**	**823**	**4,109**	**-**	**26,625**
Total equity	**-**	**-**	**-**	**-**	**460,761**	**460,761**
	770,049	**59,514**	**27,307**	**34,655**	**460,761**	**1,352,286**
Net liquidity gap	**(692,380)**	**(24,002)**	**38,839**	**359,310**	**318,233**	**-**
Cumulative liquidity gap	**(692,380)**	**(716,382)**	**(677,543)**	**(318,233)**	**-**	**-**
Off balance sheet items						
Loan commitments	**16,744**	**-**	**-**	**-**	**-**	**16,744**

Notes to the financial statements
for the year ended 31 December 2019 (continued)

28 Financial risk management (continued)

28.3 Liquidity risk (continued)

Liquidity profile of assets and liabilities (continued)

	Within 3 months AED'000	3 to 6 months AED'000	6 to 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
31 December 2018						
Assets						
Cash and deposits with banks	70,734	-	12,250	-	-	82,984
Loans and advances	28,321	26,475	52,417	385,684	769,954	1,262,851
Property and equipment	-	-	-	300	-	300
Intangible assets	-	-	-	2,483	-	2,483
Other assets	1,668	234	659	253	-	2,814
Property held for sale	-	1,450	-	-	-	1,450
	100,723	28,159	65,326	388,720	769,954	1,352,882
Liabilities						
Customer deposits	-	-	-	35,000	-	35,000
Due to Government	728,572	-	-	-	-	728,572
Due to bank	-	26,625	26,625	44,375	-	97,625
Employees' end of service benefits	-	-	-	2,920	-	2,920
Other liabilities	19,354	1,613	1,947	3,948	-	26,862
Total equity	-	-	-	-	461,903	461,903
	747,926	28,238	28,572	86,243	461,903	1,352,882
Net liquidity gap	(647,203)	(79)	36,754	302,477	308,051	-
Cumulative liquidity gap	(647,203)	(647,282)	(610,528)	(308,051)	-	-
Off balance sheet items						
Loan commitments	53,492	-	-	-	-	53,492

28.4 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Company'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
The Executive Committee reviews the pricing of loans and advances on a monthly basis and, if required, recommends product or portfolio rate changes or changes to the funding mix based on market conditions and competition.

28 Financial risk management (continued)

28.4 Market risk (continued)

Exposure to market risk

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect the net interest income of the company. The company is exposed to interest rate risk because of mismatches or gaps in the amounts of assets and liabilities that mature or re-priced in a given period.

Financial assets that are subject to fair value interest rate risk are those with a fixed interest rate.

Financial assets and liabilities exposed to cash flow interest rate risk are those with floating interest rate. A significant portion of the Company's loans and advances, due from banks, and due to Government fall under this category.

The Company's interest rate sensitivity position and interest rate gap position based on earlier of contractual re-pricing arrangements or maturity date at 31 December 2019 and 2018 were as follows:

31 December 2019	Within 3 months AED'000	3 to 6 months AED'000	6 to 12 months AED'000	Over 1 year AED'000	Non-interest bearing AED'000	Total AED'000
Assets						
Cash and deposits with banks	**33,725**	**-**	**12,250**	**-**	**20**	**45,995**
Loans and advances	**28,862**	**27,082**	**53,673**	**1,162,947**	**-**	**1,272,564**
Property and equipment	-	-	-	-	**682**	**682**
Right of use assets	-	-	-	-	**5,410**	**5,410**
Intangible assets	-	-	-	-	**2,463**	**2,463**
Other assets	-	-	--	-	**17,023**	**17,023**
Property held for sale	-	-	-	-	**8,149**	**8,149**
	62,587	**27,082**	**65,923**	**1,162,947**	**33,747**	**1,352,286**
Liabilities						
Customer deposits	**-**	**35,000**	-	-	-	**35,000**
Due to Government	**748,574**	**-**	-	-	-	**748,574**
Due to bank	**-**	**24,296**	**26,484**	**27,886**	-	**78,666**
Employees' end of service benefits	**-**	**-**	-	-	**2,660**	**2,660**
Other liabilities	**216**	**218**	**823**	**4,110**	**21,258**	**26,625**
	748,790	**59,514**	**27,307**	**31,996**	**23,918**	**891,525**
On balance sheet gap	**(686,203)**	**(32,432)**	**38,616**	**1,130,951**	**9,829**	**460,761**
Off balance sheet gap	**(16,744)**	**-**	**-**	**-**	**-**	**(16,744)**
Interest rate sensitivity gap	**(702,947)**	**(32,432)**	**38,616**	**1,130,951**	**9,829**	**444,017**
Cumulative interest rate sensitivity gap	**(702,947)**	**(735,379)**	**(696,763)**	**434,188**	**444,017**	**-**

Notes to the financial statements
for the year ended 31 December 2019 (continued)

28 Financial risk management (continued)

28.4 Market risk (continued)

31 December 2018	Within 3 months AED'000	3 to 6 months AED'000	6 to 12 months AED'000	Over 1 year AED'000	Non-interest bearing AED' 000	Total AED'000
Assets						
Cash and deposits with banks	70,725	-	12,250		9	82,984
Loans and advances	716,566	381,809	107,047	57,429	-	1,262,851
Property and equipment	-	-	-		300	300
Intangible assets	-	-	-		2,483	2,483
Other assets	-	-	-		2,814	2,814
Property held for sale	-	-	-		1,450	1,450
	787,291	381,809	119,297	57,429	7,056	1,352,882
Liabilities						
Customer deposits	-	-	-	35,000	-	35,000
Due to Government	728,572	-	-	-	-	728,572
Due to bank	-	26,625	26,625	44,375	-	97,625
Employees' end of service benefits	-	-	-	-	2,920	2,920
Other liabilities	-	-	-	-	26,862	26,862
	728,572	26,625	26,625	79,375	29,782	890,979
On balance sheet gap	58,719	355,184	92,672	(21,946)	(22,726)	461,903
Off balance sheet gap	(53,492)	-	-	-	-	(53,492)
Interest rate sensitivity gap	5,227	355,184	92,672	(21,946)	(22,726)	408,411
Cumulative interest rate sensitivity gap	5,227	360,411	453,083	431,137	408,411	-

Interest rate sensitivity

Interest rate risk is assessed by measuring the impact of reasonable possible change in interest rate movements. The Company assumes a fluctuation in interest rates of 25 basis points *(2018: 25 basis points)* and estimates the following impact on the net profit for the year:

	2019 AED'000	2018 AED'000
Fluctuation in interest rates by 25 bps	**977**	1,173

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

28 Financial risk management (continued)

28.4 Market risk (continued)

Currency risk

The Company does not have significant exposure to currency risk as most of its assets and liabilities are denominated in UAE Dirhams.

Price risk

Price risk is the risk that the value of the Company's financial instruments will fluctuate because of changes in market prices caused by factors other than interest rates or foreign currency movements. The price risk arises primarily from uncertainty about the future price of financial instruments that the Company holds. The Company does not hold financial instruments whose value is affected by changes in market prices and therefore the Company is not exposed to any significant price risk.

29 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility, growth rates and discount rates.

Assumptions and inputs used in valuation techniques include interest rates, credit spreads and other inputs used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and correlations. 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, which would have been determined by market participants acting at arm's length.

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

- Level 1: Inputs that are quoted market prices (unadjusted) in active market for identical instruments.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active market for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation technique in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation techniques includes not based on observable data and unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

29 Fair value of financial instruments (continued)

The Company's derivative financial instruments are classified at Level 2 in the fair value hierarchy. The fair values of the derivative financial instruments that are not quoted in an active market are determined through valuation techniques using the discounted cash flow method.

Management considers that the carrying amounts of financial assets and financial liabilities recognised in the statement of financial position approximate their fair values.

During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

30 Capital risk management

The Company 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 Company's capital adequacy ratio as at 31 December 2019 is 32.9% *(2018: 31.7%)*, which is in line with the Company's policy of providing an adequate shareholder's return by pricing products and services commensurately with the level of risks and to ensure compliance with regulatory capital requirements.

While maximising the return to shareholders through the optimisation of debt and equity mix, the Company manages its capital to ensure it will be able to continue as a going concern.

The Company's regulatory capital is analysed as follows:

- Tier 1 capital, which includes share capital, statutory reserve, and retained earnings and excludes intangible assets. The tier 1 capital should be a minimum of 6% of total risk weighted assets.
- Tier 2 capital, which includes revaluation reserve. 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.

Notes to the financial statements
for the year ended 31 December 2019 (continued)

30 Capital risk management (continued)

	2019 AED'000	2018 AED'000
Tier 1 capital		
Share capital	**500,000**	500,000
Statutory reserve	**17,017**	14,792
Accumulated losses	**(64,228)**	(66,275)
Intangible assets	**(2,463)**	(2,483)
	450,326	446,034
Tier 2 capital	**-**	**-**
Total regulatory capital base	**450,326**	446,034
Risk weighted exposure		
On balance sheet*	**1,352,266**	1,352,269
Off balance sheet	**16,744**	53,492
Total risk weighted assets	**1,368,261**	1,405,761
Risk asset ratio on tier 1 and total regulatory capital base (%)	**32.9%**	31.7%
Minimum risk asset ratio required by the Central Bank of the UAE	**15%**	15%

**100% risk weighting was applied to on-balance sheet risk weighted assets*

31 Reclassifications on comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year. Management believes that the current year presentation provides more information that is meaningful to the users of the financial statements. These reclassifications did not have any impact on profit or retained earnings of the prior year.

32 Approval of financial statements

The Board of Directors of the Company has approved and authorised the issue of the financial statements on 10 March 2020.