Notes to the financial statements
for the year ended 31 December 2017

1 General information

Siraj Finance PJSC (the "Company") is a private joint stock company incorporated and registered in Abu Dhabi, United Arab Emirates (UAE). The Company is registered in accordance with the Federal Law No. (2) of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the existing Federal Law No. (8) of 1984.

The principal activities of the Company are financial activities according to Islamic principles.

The registered Head Office of the Company is at P O Box 63622, Abu Dhabi, United Arab Emirates.

2 Application of new and revised International Financial Reporting Standards (IFRS)

2.1 New and revised IFRSs applied on the consolidated financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2017, have been adopted in these financial statements.

- Amendments to IAS 7 *Disclosure Initiative*

  The Company has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The application of these amendments has had no impact on the Company's financial statements.

- *Annual Improvements to IFRS Standards 2014–2016 Cycle* – Amendments to IFRS 12

  The Company has applied the amendments to IFRS 12 included in the *Annual Improvements to IFRSs 2014-2016 Cycle* for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Company (see note 2.2).

  IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests. The application of these amendments has had no effect on the Company's financial statements.

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective

The Company has not yet applied 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
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28.	1 January 2018
Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	1 January 2019
IFRIC 22 *Foreign Currency Transactions and Advance Consideration* The interpretation addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary.	1 January 2018
IFRIC 23 *Uncertainty over Income Tax Treatments* The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.	1 January 2019
Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions.	1 January 2018
Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	1 January 2018

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.	1 January 2018
IFRS 9 *Financial Instruments* (revised versions in 2009, 2010, 2013 and 2014) (a)	1 January 2018

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- **Classification and measurement**: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment**: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised
- **Hedge accounting**: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition**: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2019
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Amendments to IFRS 15 *Revenue from Contracts* with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	1 January 2018

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 16 *Leases:* IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	1 January 2019
Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	1 January 2019
Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9.	1 January 2018
IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	1 January 2018
IFRS 17 *Insurance Contracts* IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of 1 January 2021.	1 January 2021
Amendments to IFRS 10 *Consolidated 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.
Conceptual Framework for Financial Reporting 2018	No stated effective date, therefore effective from date of issue

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to References to the *Conceptual Framework in IFRS Standards*	1 January 2020
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.*	

Management anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements as and when they are applicable.

Management anticipates that IFRS 9 will be adopted in the Company's financial statements for the annual period beginning 1 January 2018. The application of IFRS 9 will have significant impact on amounts reported and disclosures made in the Company's financial statements in respect of the Company's financial assets and financial liabilities.

Management anticipates that IFRS 16 will be adopted in the Company's financial statements for the annual period beginning 1 January 2019. The application of IFRS 16 may have significant impact on amounts reported and disclosures made in the Company's financial statements in respect of its leases. However, it is not practicable to provide a reasonable estimate of effects of the application of this standard until the management performs a detailed review.

2.3 Impact assessment of IFRS 9 *Financial Instruments*

In July 2014, the IASB published the final version of the new standard that replaces IAS 39 *Financial instruments: Recognition and Measurement*. The mandatory effective date of IFRS 9 will be for annual periods beginning on or after 1 January 2018. IFRS 9 has changed requirements for classification and measurement, impairment and hedge accounting, in addition to containing extensive new disclosure requirements. The management expects that the main impact of implementing IFRS 9 arises from the significant changes to the impairment model. IFRS 9 replaces the 'incurred loss' model with the 'expected credit loss model'. The main difference is that IFRS 9 requires entities to recognise expected credit losses in profit and loss for all financial assets not measured at fair value through profit and loss, even for those that are newly originated or acquired. IAS 39 only allows the recognition of a loss if a loss event has occurred. The main impact of implementing this new impairment model is that credit risk losses will be recognised earlier and that forward-looking information will be incorporated in the loss calculation. This difference in approach will result in higher loan loss impairments and corresponding lower equity.

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.3 Impact assessment of IFRS 9 *Financial Instruments* (continued)

Classification and measurement of financial assets and financial liabilities

IFRS 9 requires that an entity's business model and a financial asset's contractual cash flows will determine its classification and measurement in the financial statements. Upon initial recognition each financial asset will be classified as either fair value through profit or loss ('FVTPL'), amortized cost, or fair value through other comprehensive income ('FVOCI'). The classification and measurement of financial liabilities remain largely unchanged under IFRS 9 from current requirements.

The classification and measurement requirement of IFRS 9 will not have a material impact on the financial statements as material amount of the financial assets are currently carried at amortised cost. Under the new standards, the financial assets will remain at amortised cost considering there will be no impact of business model and cash flow characteristics.

The classification and measurement requirement of IFRS 9 will not materially impact the current classification of financial liabilities, as most of the financial liabilities are already measured at amortised cost.

Impairment of financial assets

The impairment requirements of IFRS 9 apply to financial assets that are measured at amortized cost or FVOCI, and off balance sheet lending commitments such as loan commitments and financial guarantees. The determination of impairment losses and allowance will move from an incurred credit loss model whereby credit losses are recognised when a defined loss event occurs under IAS 39, to an expected loss model under IFRS 9, where provisions are taken upon initial recognition of the financial asset (or the date that the Company becomes a party to the loan commitment or financial guarantee), based on expectations of potential credit losses at that time under IFRS 9. Currently, the Company first evaluates individually whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

Under IFRS 9 for financial assets originated or purchased, the Company will recognise a loss allowance at an amount equal to 12-month expected credit losses, if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1). This amount represents the expected credit losses resulting from default events that are possible within the next 12 months. The interest revenue is calculated on the gross carrying amount for financial assets in Stage 1.

IFRS 9 requires the recognition of credit losses over the remaining life of the financial assets ('lifetime expected losses') which are considered to have experienced a significant increase in credit risk (Stage 2) and for financial assets that are credit impaired at the reporting date (Stage 3). The lifetime expected credit losses represent all possible default events over the expected life of a financial instrument. For transferring financial assets to Stage 2, the Company uses comprehensive standards for assessing increase in credit risk. The standards use a judicious mix of current and expected future information involving both internal information (that includes credit rating changes, past dues, changes in credit management approach and loan documentation) and external environment that (includes changes in regulatory, financial and economic conditions.

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.3 Impact assessment of IFRS 9 *Financial Instruments* (continued)

Impairment of financial assets (continued)

However, this is rebuttable in cases where reasonable and supportable information that is more forward-looking than past due information is available without undue cost or effort, which is used to assess changes in credit risk instead of relying solely on past due information. The interest revenue is calculated on the gross carrying amount for financial assets in Stage 2.

The Company classifies customers as credit impaired financial assets moving to Stage 3 when an obligor is 'past due' for more than 90 days from the contracted due date, owing to material credit weakness.

Interest revenues are calculated on the net carrying amount for these financial assets only. Forward-looking information, including macro-economic factors is taken into account to measure IFRS 9 compliant expected credit losses.

IFRS 9 does not distinguish between individually significant or not individually significant financial instruments. Therefore, the Company decided to measure the allowance for credit losses on an individual transaction basis. Similarly, the assessment for transferring financial assets between Stages 1, 2 and 3 will also be made on an individual transaction basis.

The Company uses three main components to measure expected credit losses which are a probability of default ('PD'), a loss given default ('LGD') and the exposure at default ('EAD'). For the purpose of IFRS 9 the allowance for credit losses is affected by a variety of key characteristics, such as, but not limited to the expected balance at default and the related amortization profile as well as the expected life of the financial asset. As a consequence, the allowance for credit losses for Stage 2 financial assets will increase with the expected lifetime or the expected EAD. Incorporating forecasts of future economic conditions into the measurement of expected credit losses will additionally cause an impact on the allowance for credit losses for each stage.

As a result of IFRS 9, there will be an increase in subjectivity as the allowance for credit losses will be based on reasonable and supportable forward-looking information which take into consideration future macro-economic scenarios. IFRS 9 is estimated to result in an increase in the overall level of allowances for credit losses as noted above. This estimated increase is driven by the requirement to record an allowance equal to 12 months expected credit losses on those instruments whose credit risk has not significantly increased since initial recognition and by the population of financial assets to which lifetime expected losses must be applied.

The transitional impact of IFRS 9 will be recognised in the opening equity as at 1 January 2018. The management has estimated that there will be no material impact of IFRS 9, due to the fact that the Company does not have any exposure under Stage 3. Moreover, the ECL required on Stage 1 & 2 will be sufficiently covered with the existing collective provision. However, management believes that this assessment is preliminary because not all transition work has been finalised.

3 Significant accounting policies

3.1 Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements have been presented in United Arab Emirates Dirhams (AED) being the functional and reporting currency of the Company.

3.2 Basis of preparation

The Company's accumulated losses amounted to AED 47,212,604 as at 31 December 2017. The accompanying financial statements have been prepared on a going concern basis on the assumption of the successful completion of its restructuring and continuous achievement of positive cash flows from operations. The ability of the Company to continue as a going concern is, however, dependent upon future events, including the Company's ability to meet its forecasts and achieving a level of business adequate to support the Company's cost structure and unexpected credit losses.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3.3 Revenue recognition

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities.

i) Profit from Islamic financing and return on bank deposits

Profit from Islamic financing and returns on bank deposit are recognized as the income / return accrues using the effective profit rate method, under which the rate used exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

ii) Fees and commission income

Fee and commission income include fees that are an integral part of EIR and therefore recognised as income as adjustment to the effective interest rate.

3 Significant accounting policies (continued)

3.4 Furniture, fixtures and office equipment

Furniture, fixtures and office equipment are stated at cost less accumulated depreciation. Depreciation is calculated on straight line basis on the estimated useful lives of assets as follows:

Furniture and fixtures	7 years
Office equipment	4 years
Leasehold improvements	4 years
Computer software and hardware	4 years

The carrying value of furniture, fixtures and office equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of furniture, fixtures and office equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of furniture, fixtures and office equipment. All other expenditure is recognised in the statement of comprehensive income as the expense is incurred.

3.5 Deposits and other receivables

Accounts and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective rate method, less any impairment. Income is recognized by applying the effective rate, except for short-term receivables when the recognition of income would be immaterial.

3.6 Murabaha financing

Murabaha financing are non-derivative financial assets with fixed payments that are not quoted in an active market. A Murabaha contract is a sale of goods with an agreed upon profit mark up on the cost of the goods. A Murabaha contract is of two categories. In the first category, the Company purchases the goods and makes it available for sale without any prior promise from a customer to purchase it. In the second category, the Company purchases the goods ordered by a customer from a third party and then sells these goods to the same customer. In the latter case, the Company purchases the goods only after a customer has made a promise to purchase them from the Company.

3.7 Salam financing

Salam is a sale contract where the customer (seller) undertakes to deliver/supply a specified tangible asset to the Company (buyer) at mutually agreed future date(s) in exchange for an advance price fully paid on the spot by the buyer.

3.8 Cash and cash equivalents

Cash and cash equivalents are comprised of cash in hand, bank balances and deposits with original maturities of three months or less.

3 Significant accounting policies (continued)

3.9 Depositors' accounts

Depositors' accounts, which comprise of current accounts, margin accounts and Wakala deposits, are initially recognised at fair value less transaction costs and are subsequently measured at amortised cost.

Allocation of profits between depositors and shareholders is calculated according to the Company's standard procedures and is approved by the Fatwa and Sharia Supervision Board.

3.10 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

3.11 Trade payable and accruals

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

3.12 Employees' end of service benefits

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

With respect to its UAE national employees, the Company makes contributions to the relevant government pension scheme, calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

3.13 Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the rates of exchange ruling at the reporting date. Any resultant gains and losses are recognized in the statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

3.14 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

3 Significant accounting policies (continued)

3.15 Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of profit or loss and other comprehensive income. Impairment is determined as follows:

a) for assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and

b) for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective profit rate.

3.16 Derecognition of financial assets

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

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

4 Critical accounting judgements and key sources of estimation uncertainty

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

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

4.1 Key sources of estimation uncertainty

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

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

4.1 Key sources of estimation uncertainty (continued)

Impairment of Islamic financing assets

Application of the methodology for assessing loan impairment, as set out in Note 3.15, involves considerable judgement and estimation. For individually significant loans, judgement is required in determining first, whether there are indications that an impairment loss may have already been incurred, and then estimating the amount and timing of expected cash flows, which form the basis of the impairment loss that is recorded.

For collectively assessed loans, judgement is involved in selecting and applying the criteria for grouping together loans with similar credit characteristics, as well as in selecting and applying the statistical and other models used to estimate the losses incurred for each group of loans in the reporting period. The benchmarking of loss rates, the assessment of the extent to which historical losses are representative of current conditions, and the ongoing refinement of modelling methodologies, provide a means of identifying changes that may be required, but the process is inherently one of estimation.

5 Correction of prior period error

During 2017, certain expenses were identified which were related to financial year ended 31 December 2016, which were either not recorded or recorded as advances to vendors. The error has been corrected by restating each of the affected financial statement line items for the prior periods as follows:

	2016 AED	Increase/ (Decrease) AED	2016 (Restated) AED
Statement of financial position (extract)			
Furniture, fixtures and office equipment	316,023	229,875	545,898
Deposits, prepayments and other receivables	37,602,025	(475,908)	37,126,117
Trade payables and other liabilities	(411,274)	(586,755)	(998,029)
Net assets	37,506,774	(832,788)	36,673,986
Accumulated losses	(49,121,206)	(832,788)	(49,953,994)
Statement of profit or loss and other comprehensive income (extract)			
Fee and commission income	1,915,935	(440,650)	1,475,285
Administrative expenses	(3,503,238)	(392,138)	(3,895,376)

6 Cash and cash equivalents

	2017 AED	2016 AED
Cash in hand	**14,887**	12,264
Current account balances with banks	**12,553,658**	1,950,119
Cash and cash equivalents	**12,568,545**	1,962,383

Bank balances are held within United Arab Emirates.

7 Islamic financing assets, net

	2017 AED	2016 AED
SME murabaha	**85,435,373**	7,367,571
Corporate murabaha	**33,044,603**	44,440,999
Retail murabaha	**7,469,065**	5,183,479
Retail salam	**917,871**	-
	126,866,912	56,992,049
Less: deferred profit on murabaha financing	**(4,353,506)**	(599,266)
	122,513,406	56,392,783
Allowance for impairment:		
Specific allowance	**-**	(1,994,744)
Collective allowance	**(2,507,763)**	(1,199,673)
	120,005,643	53,198,366

7 Islamic financing assets, net (continued)

Movement in allowance for impairment:

	2017			2016		
	Specific allowance AED	**Collective allowance AED**	**Total AED**	Specific allowance AED	Collective allowance AED	Total AED
At 1 January	**1,994,744**	**1,199,673**	**3,194,417**	-	-	-
Charge for the year	**-**	**1,308,090**	**1,308,090**	1,994,744	1,199,673	3,194,417
Reversal for the year	**(1,994,744)**	**-**	**(1,994,744)**	-	-	-
Net (reversal)/charge	**(1,994,744)**	**1,308,090**	**(686,654)**	1,994,744	1,199,673	3,194,417
At 31 December	**-**	**2,507,763**	**2,507,763**	1,994,744	1,199,673	3,194,417

The distribution of financing by industry sector and geographic region was as follows:

	2017 AED	2016 AED
Industry:		
Trade	**62,839,684**	12,320,000
Professional, scientific and technical	**36,333,992**	-
Services	**11,998,494**	502,103
Individuals	**8,386,936**	5,080,481
Construction and real estate	**1,648,509**	20,571,971
Transport, storage and communication	**314,606**	8,428,986
Electricity, gas and water	-	4,286,507
Manufacturing	-	272,714
Other services	**991,185**	4,930,021
	122,513,406	56,392,783

Notes to the financial statements
for the year ended 31 December 2017 (continued)

7 Islamic financing assets, net (continued)

All Islamic financing assets are in the United Arab Emirates.

	2017			2016		
	Corporate and SME AED	**Retail AED**	**Total AED**	Corporate and SME AED	Retail AED	Total AED
Past due and impaired:						
Substandard	-	-	-	9,029,239	-	9,029,239
Specific allowance	-	-	-	(1,994,744)	-	(1,994,744)
Carrying amount	-	-	-	7,034,495	-	7,034,495
Past due but not impaired:						
Less than 30 days	**62,523,152**	**7,099,105**	**69,622,257**	1,295,052	-	1,295,052
Less than 60 days	**250,000**	-	**250,000**	93,025	-	93,025
Less than 90 days	-	-	-	2,378,994	-	2,378,994
Carrying amount	**62,773,152**	**7,099,105**	**69,872,257**	3,767,071	-	3,767,071
Not past due:	**51,402,672**	**1,238,477**	**52,641,149**	38,515,992	5,080,481	43,596,473
Collective allowance	**(2,382,699)**	**(125,064)**	**(2,507,763)**	(1,199,673)	-	(1,199,673)
Total outstanding	**114,175,824**	**8,337,582**	**122,513,406**	51,312,302	5,080,481	56,392,783
Total allowance for impairment	**(2,382,699)**	**(125,064)**	**(2,507,763)**	(3,194,417)	-	(3,194,417)
Total carrying amount	**111,793,125**	**8,212,518**	**120,005,643**	48,117,885	5,080,481	53,198,366

It is not the practice of the Company to obtain collateral for the financing and the vast majority is therefore unsecured.

8 Deposits, prepayments and other receivables

	2017 AED	2016 AED (Restated)
Guarantee deposit	**35,000,000**	35,000,000
Processing fee and commission receivable	**1,292,347**	1,317,768
Advances and other receivables	**418,710**	517,442
Accrued income on bank deposits	**32,831**	39,142
Prepayments	**469,424**	251,765
	37,213,312	37,126,117

8 Deposits, prepayments and other receivables (continued)

Guarantee deposit represents cash deposited with one of the local bank in order to issue a bank guarantee and carries profit rate of 0.6% to 0.7% (2016: 0.6% to 0.7%) per annum.

9 Furniture, fixtures and office equipment

	Furniture and fixtures AED	Office equipment AED	Leasehold improvements AED	Computer software and hardware AED	Total AED
Cost					
At 1 January 2016	130,008	931,730	2,263,581	4,543,625	7,868,944
Additions	46,430	81,311	-	244,886	372,627
At 31 December 2016	176,438	1,013,041	2,263,581	4,788,511	8,241,571
Correction of error (note 5)	-	-	-	275,850	275,850
At 31 December 2016 (restated)	176,438	1,013,041	2,263,581	5,064,361	8,517,421
Additions	316,547	18,850	-	230,486	565,883
At 31 December 2017	**492,985**	**1,031,891**	**2,263,581**	**5,294,847**	**9,083,304**
Accumulated depreciation					
At 1 January 2016	130,008	931,730	2,263,581	4,543,625	7,868,944
Charge for the year	3,138	11,386	-	42,080	56,604
At 31 December 2016	133,146	943,116	2,263,581	4,585,705	7,925,548
Correction of error (note 5)	-	-	-	45,975	45,975
At 31 December 2016 (restated)	133,146	943,116	2,263,581	4,631,680	7,971,523
Charge for the year	49,073	20,994	-	168,232	238,299
At 31 December 2017	**182,219**	**964,110**	**2,263,581**	**4,799,912**	**8,209,822**
Net carrying amount					
At 31 December 2017	**310,766**	**67,781**	**-**	**494,935**	**873,482**
At 31 December 2016 (restated)	43,292	69,925	-	432,681	545,898

10 Depositors' accounts

	2017 AED	2016 AED
Margin accounts	**59,877,460**	2,572,850
Wakala deposits	**29,509,600**	11,366,000
Current accounts	**33,857**	986,000
	89,420,917	14,924,850
Industry sector		
Corporates	**21,325,206**	8,166,150
Small and medium enterprises	**68,095,711**	6,758,700
	89,420,917	14,924,850

All Islamic financing assets are in the United Arab Emirates.

The profit rates on wakala deposits ranges from 1.46% to 2.25% (2016: 1.46% to 2.25%).

11 Trade payables and other liabilities

	2017 AED	2016 AED (Restated)
Deferring processing fee income	**484,857**	440,650
Trade accounts payable	**140,937**	18,945
Profit payable on wakala deposits	**223,237**	49,199
Accrued expenses and other payables	**333,727**	489,235
	1,182,758	998,029

Notes to the financial statements for the year ended 31 December 2017 (continued)

12 Employees' end of service benefits

	2017 AED	2016 AED
At 1 January	**255,751**	181,276
Charge for the year	**125,928**	74,475
Payments during the year	**`(24,495)**	-
At 31 December	**357,184**	255,751

13 Share capital

	2017 AED	2016 AED
Authorised and paid-up share capital:		
126,500,000 shares (2016: 500,000,000 shares) of AED 1 each	**126,5000,000**	**126,5000,000**

14 Legal reserve

As required by the UAE Law No. (2) of 2015 and the Company's Articles of Association, 10% of the Company's profit for the year is required to be transferred to a statutory reserve. The reserve is not available for distribution to the shareholders. Transfers to statutory reserves are required to be made until such time as it equals at least 50% of the paid up share capital of the Company.

15 Related parties

The Company considers any other entities or companies, which are owned by the shareholders, either wholly or in partnership with others, as related parties. Balances with related parties arise generally from commercial transactions in the normal course of business on an arm's length basis. Details of all transactions in which a Director and/or related parties might have actual or potential conflicts are provided to the Board of Directors for its review and approval. Where a Director is interested, that Director neither participates in the discussions nor votes on such matters. Related parties represent major shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Balances and transactions with related parties disclosed in the statement of financial position are as follows:

Notes to the financial statements
for the year ended 31 December 2017 (continued)

15 Related parties (continued)

	Shareholders and related parties AED	Directors and key management AED	2017 Total AED	Shareholders and related parties AED	Directors and key management AED	2016 Total AED
Related party balances						
Islamic financing assets	14,819,898	16,934,553	31,754,451	19,023,205	22,006,759	41,029,964
Other receivables processing fee and commission receivables	1,083,362	208,278	1,291,640	1,019,305	208,278	1,227,583
Depositors accounts	3,959,860	96,384	4,056,244	2,330,000	2,157,000	4,487,000
Significant transactions with related parties:						
Income from murabaha financing	554,497	1,221,924	1,776,421	900,957	1,867,759	2,777,716
Staff secondment charges	-	-	-	(373,850)	-	(373,850)
Distribution to depositors	(25,048)	(1,672)	(26,720)	(9,763)	(18,977)	(28,740)
Remuneration to key management personnel						
Short term employment benefits	-	555,096	555,096	-	-	-
Post-employment benefits	-	21,560	21,560	-	-	-

Commitments and contingencies as 31 December 2017 was amounting to AED 16,000,920 issued on behalf of related parties (2016: AED 20,242,639).

16 Income from Islamic financing

	2017 AED	2016 AED
Income from SME murabaha	1,898,082	110,574
Income from corporate murabaha	1,540,426	3,344,249
Income from retail murabaha	627,588	508,599
Income from salam finance	32,993	-
	4,099,089	3,963,422

Murabaha income is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding. Profit rates earned on Murabaha financing facilities during the year have ranged from 5.5% to 24.0% per annum.

17 Administrative expenses

	2017 AED	2016 AED (Restated)
Staff cost	**3,429,065**	2,312,048
Sales commission	**1,039,441**	-
Sharia fees	**360,000**	252,038
Depreciation (note 8)	**238,299**	102,579
Rent expense	**118,333**	208,637
Other	**1,897,994**	1,020,074
	7,083,132	3,895,376

18 Commitments and contingencies

The Company's bankers have issued in the normal course of business, the following letters of guarantee:

	2017 AED	2016 AED
Central Bank of the UAE	**35,000,000**	35,000,000

At 31 December 2017, the guarantees were secured by a cash deposit of AED 35 million (2016: AED 35 million).

	2017 AED	2016 AED
Labor guarantees	**100,699,939**	19,810,000
Bid/tender bonds	**14,166,364**	10,184,400
Performance bonds	**7,441,717**	6,397,100
Advance payment guarantees	**5,416,384**	2,106,240
Financial guarantees	**5,678,720**	50,000
	133,403,124	38,547,740

19 Risk management

Financial risk management objectives

Management has not formalized the risk management policies of the Company. However, management monitors exposures, based on the degree and magnitude of risks, on a continuous basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative or risk management purposes. The Company's exposure to financial risks is described below.

Market risk management

Market risk is the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in market prices.

Foreign currency risk

Currency risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has no significant foreign currency risk.

Profit rate risk

The Company is exposed to profit rate risk on its profit bearing assets and liabilities. The following table demonstrates the sensitivity of the income to reasonably possible changes in profit rates, with all other variables held constant.

The sensitivity of the statement of profit or loss and other comprehensive income is the effect of the assumed changes in profit rates on the Company's profit for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2017.

There is no impact on the Company's equity.

	Increase/decrease in basis points	*Effect on profit (loss) for the year AED*
2017		
AED	**+100**	**350,000**
AED	**-100**	**(350,000)**
2016		
AED	+100	350,000
AED	-100	(350,000)

19 Risk management (continued)

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company, and arises principally from the Company's deposits and certain other receivables, Islamic financing assets and cash and cash equivalents.

Balances with banks are assessed to have low risk of default since these banks are among the major banks operating in the United Arab Emirates and are highly regulated by the Central Bank.

Deposits and certain other receivables, Islamic financing assets and balances with banks are not secured by any collateral. The amounts that best represent the maximum credit risk exposure on financial assets at the reporting date, in the event counterparties fail to perform their obligations, are the carrying values.

Liquidity risk management

Liquidity risk is the risk that the Company will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents.

The maturity profile of financial assets and liabilities is monitored by management to ensure adequate liquidity is maintained. The table below summaries the maturity profile of financial assets and liabilities as at 31 December 2017 and 31 December 2016 based on contractual maturities.

	Less than 3 months AED	3 months to 1 year AED	1 year to 5 years AED	Over 5 years AED	Total AED
Financial assets					
Islamic financing assets	76,389,312	15,418,021	20,122,894	8,075,416	120,005,643
Deposits and other receivables	259,994	36,869,523	20,500	63,295	37,213,312
Bank balances	12,553,658	-	-	-	12,553,658
	89,202,964	**52,287,544**	**20,143,394**	**8,138,711**	**169,772,613**
Financial liabilities					
Depositor's accounts	65,464,494	23,938,423	18,000	-	89,420,917
Trade payables and other liabilities	370,481	613,242	-	199,035	1,182,758
	65,834,975	**24,551,665**	**18,000**	**199,035**	**90,603,675**

Notes to the financial statements
for the year ended 31 December 2017 (continued)

19 Risk management (continued)

Liquidity risk management (continued)

	Less than 3 months AED	3 months to 1 year AED	1 year to 5 years AED	Over 5 years AED	Total AED
Financial assets					
Islamic financing assets	45,077,457	7,281,829	839,080	-	53,198,366
Deposits and other receivables	129,217	36,895,605	-	101,295	37,126,117
Bank balances	1,950,119	-	-	-	1,950,119
	47,156,793	44,177,434	839,080	101,295	92,274,602
Financial liabilities					
Depositor's accounts	3,558,850	11,366,000	-	-	14,924,850
Trade payables and other liabilities	269,145	529,849	-	199,035	998,029
	3,827,995	11,895,849	-	199,035	15,922,879

The table below summaries the maturity profile of financial assets and liabilities as at 31 December based on contractual undiscounted repayment obligations, including cash flow pertaining to principal repayment and profit payable to maturity.

	Less than 3 months AED	**3 months to 1 year AED**	**1 year to 5 years AED**	**Over 5 years AED**	**Total AED**
2017					
Depostior's accounts	**65,566,243**	**24,386,893**	**20,160**	-	**89,973,296**
Trade payables and other liabilities	**1,743,531**	**128,385**	-	**199,035**	**2,070,951**
	67,309,774	**24,515,278**	**20,160**	**199,035**	**92,044,247**
2016					
Depostior's accounts	3,558,850	11,579,283	-	-	15,138,133
Trade payables and other liabilities	123,040	89,200	-	199,034	411,274
	3,681,890	11,668,483	-	199,034	15,549,407

19 Risk management (continued)

Capital risk management

The Company manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 2016. Capital comprises share capital, legal reserve and accumulated losses.

20 Capital adequacy

The Company is licensed and regulated by the Central Bank of UAE. The Central Bank's capital adequacy stipulation for finance companies is a minimum 15%. The Company's capital adequacy ratio as at 31 December 2017 is 47.9% (2016: 97.1%) which is in line with the Company's policy of maintaining a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company's regulatory capital comprises of share capital, statutory reserves and accumulated losses (Tier 1). The tier 1 capital should be a minimum of 12% of total risk weighted assets.

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

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

	2017 **AED**	2016 AED
Total Capital Base	**80,184,980**	77,094,784
Total risk weighted assets	**167,184,156**	79,397,231
Capital Adequacy (Total capital base/total risk weighted assets)	**47.9%**	97.1%

21 Fair value of financial instruments

Financial assets include deposits and certain other receivables, murabaha financing and bank balances and cash. Financial liabilities included depositors' accounts, trade payables and certain other liabilities.

The fair values of financial instruments are not materially different from their carrying values.

22 Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 23 JUL 2018.