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.

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 Definitions

The following terms are used in the financial statements with the meanings specified:

Murabaha

A sale contract whereby the Company sells to a customer a physical asset, goods, or shares already owned and possessed (either physically or constructively) at a selling price that consists of the purchase cost plus a mark-up profit in exchange for allowing the buyer to pay over time.

Ijara

A lease contract whereby the Company (the Lessor) leases to a customer (the Lessee) a service or the usufruct of an owned or rented physical asset that either exists currently or to be constructed in future (forward lease) for a specific period of time at specific rental installments. The lease contract could be ended by transferring the ownership of a leased physical asset through an independent mode to the lessee.

Mudaraba

A contract whereby the Company provides the funds (Rab Al Mal) and the customer (the Mudarib) invests the funds in a project or a particular activity and any generated profits are distributed between the parties according to the profit shares that were pre-agreed upon in the contract. The Mudarib is responsible of all losses caused by his misconduct, negligence or violation of the terms and conditions of the Mudaraba; otherwise, losses are borne by Rab Al Mal.

Salam (Bai Al Salam)

A sale contract whereby 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 Company.

Wakalah

A contract whereby the Company (the principal: the Muwakkil) appoints another party (the agent: Wakil) to invest certain funds according to the terms and conditions of the Wakala for a fixed fee in addition to any profit exceeding the expected profit as an incentive for the Wakil for the good performance. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the Wakil; otherwise, they are borne by the principal.

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

3.1 New and revised IFRSs applied on 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.

- IFRS 16, *Leases*
- 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 New and revised IFRS 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 2023
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.

4 Significant accounting policies

4.1 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.

4.2 Basis of preparation

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.

The financial statements incorporate those activities relating to Islamic banking which have been undertaken by the Company. Islamic banking refers generally to the acceptance of deposits, granting of financing and dealing in Islamic securities under Shariah principles (see note 2).

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses, and disclosure of contingent assets and liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised.

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.

4 Significant accounting policies (continued)

4.3 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 Wakala deposits

Profit is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding using the effective profit rate method.

ii) Fees and commission income

Fee and commission income is recognised when the related services are performed. Other fee and commission that are an integral part of financing is recognised as income as adjustment to the effective profit rate.

4.4 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
Vehicles	5 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.

4.5 Financial instruments

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

4 Significant accounting policies (continued)

4.5 Financial instruments (continued)

Financial assets

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

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

Classification of financial assets

The classification of a financial asset is made at the time it is initially recognised i.e. when the entity becomes a party to the contractual provisions of the instrument. The classification of financial assets depends on the entity’s business model and cash flow characteristics of the financial assets.

A financial asset that meets the following conditions must be measured at amortised cost (net of any write down for impairment) unless the asset is irrevocably designated at FVTPL under the fair value option to eliminate any accounting mismatch. The Company has not taken any such election.

Business model test: The objective of the entity's business model is to hold the financial asset to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realise its fair value changes).

Cash flow characteristics test: The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

A financial asset that meets the following two conditions must be measured at FVTOCI unless the asset is irrevocably designated at FVTPL under the fair value option to eliminate any accounting mismatch. The Company has not taken any such election.

Business model test: The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Cash flow characteristics test: The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

All other financial assets must be measured at fair value through profit or loss (FVTPL). However, for equity instruments, which are not held for trading, can be irrevocably designated at fair value through other comprehensive income (FVTOCI). The Company has no investment in equity shares.

The Company’s financial assets consist of cash and cash equivalents, Wakala deposits with financial institutions, Islamic financing assets and deposits and other receivables.

4 Significant accounting policies (continued)

4.5 Financial instruments (continued)

Financial assets (continued)

Amortised cost and effective interest method

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating profit income over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition..

For financial instruments other than purchased or originated credit-impaired financial assets, profit income is calculated by applying the effective rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, profit is recognised by applying the effective rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, profit is recognised by applying the effective rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company recognises profit by applying the credit-adjusted effective rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on Islamic financing assets. Other financial assets, i.e. cash and cash equivalents, Wakala deposits with financial institutions and deposits and other receivables are assessed for impairment and loss allowance is recognised if it is material. 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.

The Company applies three stage approach in measuring ECL. The financial assets of the Company are migrated through the following three stages based on the change in credit quality since initial recognition.

Stage 1 - 12 months ECL: The Company measures the loss allowance for the financial instrument at an amount equal to 12-month ECL, when the credit risk on a financial instrument is lower and has not increased significantly since initial recognition

4 Significant accounting policies (continued)

4.5 Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Stage 2 - Lifetime ECL (not credit impaired): The Company measures the loss allowance for the financial instrument at an amount lifetime ECL, when the credit risk on a financial instrument has increased significantly since initial recognition.

Stage 3 - Lifetime ECL (credit impaired): Financial assets are credit-impaired when one or more events that have occurred and have a significant impact on the expected future cash flows of the financial asset.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Forward-looking information considered includes the selected macro-economic indicators, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company’s core operations.

(ii) Definition of default

The Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired 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 that financial asset have occurred.

4 Significant accounting policies (continued)

4.5 Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(iv) Write-off policy

The Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of expected credit losses

ECL are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the financial instruments and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realised and the time value of money.

The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective rate.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

4 Significant accounting policies (continued)

4.5 Financial instruments (continued)

Financial assets (continued)

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.

Classification as financial liability or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

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

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Company, are measured in accordance with the specific accounting policies set out below.

Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

Depositors' accounts and trade payables and other liabilities classified as 'financial liabilities', are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method, with distribution to depositor recognised on an effective yield basis.

4 Significant accounting policies (continued)

4.5 Financial instruments (continued)

Classification as financial liability or equity (continued)

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4.6 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.

4.7 Trade payables and other liabilities

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

4.8 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.

4.9 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.

4.10 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.

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

5 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 4, 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.

5.1 Critical accounting judgements

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

Significant increase in credit risk

As explained in note 4, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Company takes into account qualitative and quantitative reasonable and supportable forward looking information.

Macroeconomic factors, forward looking information and multiple scenarios

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

PD and Loss Given Default (LGD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in the Company's expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

Estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability weighted estimate that considers a minimum of three future macroeconomic scenarios.

Base-case, upside and downside scenarios, will be based on macroeconomic forecasts received from an external reputable source. These scenarios will be updated on a quarterly basis and more frequently if conditions warrant.

All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.

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

5.2 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.

Measurement of impairment loss on Islamic financing assets

When measuring ECL the Company uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions expectations of future conditions.

As of 31 December 2019, the ECL on Islamic financing assets amounts to AED 15,696,659.

6 Cash and cash equivalents

	2019 AED	2018 AED
Cash in hand	**363,989**	292,288
Current account with banks	**11,751,922**	5,074,101
Cash and cash equivalents	**12,115,911**	5,366,389

Bank balances are placed with financial institutions in the United Arab Emirates.

7 Wakala deposits with financial institutions

Wakala deposits are placed with financial institutions within the UAE with original maturity of one year and profit rate of 2.1%. The outstanding wakala deposits as at 31 December 2018 matured during the current year.

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

8 Islamic financing assets, net

	2019 AED	2018 AED
SME Murabaha	**446,907,739**	346,064,083
Corporate Murabaha	**2,867,434**	9,452,328
Retail Murabaha	**-**	7,591,442
Retail Salam	**4,949,334**	3,565,353
Retail Ijara	**86,296**	-
	454,810,803	366,673,206
Less: Deferred profit on murabaha financing	**(100,720,409)**	(48,150,826)
	354,090,394	318,522,380
Allowance for impairment	**(15,696,659)**	(6,743,803)
	338,393,735	311,778,577

Movement in allowance for impairment for the year ended 31 December 2019 and 2018 were as follows:

	2019			
	Stage 1 AED	**Stage 2 AED**	**Stage 3 AED**	**Total AED**
At 1 January	**336,510**	**5,555,311**	**851,982**	**6,743,803**
Charge for the year, net	**28,046**	**2,172,107**	**6,752,703**	**8,952,856**
At 31 December	**364,556**	**7,727,418**	**7,604,685**	**15,696,659**

	2018			
	Stage 1 AED	Stage 2 AED	Stage 3 AED	Total AED
At 1 January	180,926	2,326,837	-	2,507,763
Charge for the year	155,584	3,228,474	851,982	4,236,040
At 31 December	336,510	5,555,311	851,982	6,743,803

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

8 Islamic financing assets, net (continued)

Below is the breakdown of the Company's exposure by credit quality as of 31 December 2019 and 2018:

	2019			2018		
	Corporate and SME AED	**Retail AED**	**Total AED**	Corporate and SME AED	Retail AED	Total AED
Stage 3:						
Substandard	**24,820,485**	**-**	**24,820,485**	3,126,815	-	3,126,815
Allowance for impairment	**-**	**-**	**(7,604,685)**	-	-	(851,982)
Carrying amount	**24,820,485**	**-**	**17,215,800**	3,126,815	-	2,274,833
Stage 2:						
Less than 60 days	**39,427,027**	**630,656**	**40,057,683**	81,742,219	805,605	82,547,824
Less than 90 days	**2,042**	**-**	**2,042**	15,908	-	15,908
Allowance for impairment	**-**	**-**	**(7,727,418)**	-	-	(5,555,311)
Carrying amount	**39,429,069**	**630,656**	**32,332,307**	81,758,127	805,605	77,008,421
Stage 1:	**284,805,210**	**4,404,974**	**289,210,184**	230,164,263	2,667,570	232,831,833
Allowance for impairment	**-**	**-**	**(364,556)**	-	-	(336,510)
Carrying amount	**284,805,210**	**4,404,974**	**288,845,628**	230,164,263	2,667,570	232,495,323
Total outstanding amount	**349,054,764**	**5,035,630**	**354,090,394**	315,049,205	3,473,175	318,522,380
Total allowance for impairment	**-**	**-**	**(15,696,659)**	-	-	(6,743,803)
Total carrying amount	**349,054,764**	**5,035,630**	**338,393,735**	315,049,205	3,473,175	311,778,577

All Islamic financing assets are in the United Arab Emirates.

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

8 Islamic financing assets, net (continued)

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

	2019 AED	2018 AED
Industry sector		
Services	**116,753,504**	103,717,935
Trade	**65,087,803**	109,146,903
Professional, scientific and technical	**62,866,262**	52,235,827
Construction and real estate	**43,980,408**	12,867,884
Transport, storage and communication	**28,712,098**	18,067,318
Manufacturing	**22,777,920**	3,669,303
Electricity, gas and water	**6,625,296**	7,752,593
Individuals	**5,035,166**	11,064,617
Financial and insurance activities	**2,251,937**	-
Total outstanding amount	**354,090,394**	318,522,380

9 Deposits, prepayments and other receivables

	2019 AED	2018 AED
Guarantee deposit	**35,000,000**	35,000,000
Advances and other receivables	**26,637,428**	5,884,318
Prepayments	**7,635,890**	5,298,341
Advance to Director	**8,465,841**	12,200,858
Accrued income on bank deposits	**221,667**	10,942
Processing fee and commission receivable	**14,318**	14,318
	77,975,144	58,408,777

Guarantee deposit represents cash deposited with a local bank for issuance of a bank guarantee and carries profit rate of 4.0% per annum (2018: 0.7%).

Advance to Director is unsecured, interest free and repayable on demand (note 16).

10 Furniture, fixtures and office equipment

	Furniture and fixtures AED	Office equipment AED	Leasehold improvements AED	Vehicles AED	Computer software and hardware AED	Capital Work In Progress AED	Total AED
Cost							
At 1 January 2018	492,985	1,031,891	2,263,581	-	5,294,847	-	9,083,304
Additions	658,296	255,459	-	-	92,549	-	1,006,304
Fully depreciated and not in use	(130,143)	(931,730)	(2,263,581)	-	(4,543,625)	-	(7,869,079)
At 31 December 2018	1,021,138	355,620	-	-	843,771	-	2,220,529
Additions	93,300	40,551	-	136,190	117,625	533,333	921,001
At 31 December 2019	**1,114,438**	**396,171**	**-**	**136,190**	**961,396**	**533,333**	**3,141,530**
Accumulated depreciation							
At 1 January 2018	182,219	964,110	2,263,581	-	4,799,912	-	8,209,822
Charge for the year	111,072	61,332	-	-	194,682	-	367,086
Fully depreciated and not in use	(130,143)	(931,730)	(2,263,581)	-	(4,543,625)	-	(7,869,079)
At 31 December 2018	163,148	93,712	-	-	450,969	-	707,829
Charge for the year	149,460	94,541	-	17,333	227,398	-	488,733
At 31 December 2019	**312,608**	**188,253**	**-**	**17,333**	**678,367**	**-**	**1,196,562**
Net carrying amount							
At 31 December 2019	**801,831**	**207,918**	**-**	**118,857**	**283,029**	**533,333**	**1,944,968**
At 31 December 2018	857,990	261,908	-	-	392,802	-	1,512,700

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

11 Depositors' accounts

	2019 AED	2018 AED
Margin accounts	**235,593,055**	243,762,833
Current accounts	**45,215,001**	14,611,971
Wakala deposits	**24,299,642**	32,123,738
	305,107,698	290,498,542
Industry sector		
Corporates	**3,131,240**	51,175,067
Small and medium enterprises	**301,976,458**	239,323,475
	305,107,698	290,498,542

All depositors' accounts are in the United Arab Emirates.

The profit rates on wakala deposits ranges from 1.00% to 3.00% (2018: 1.00% to 2.50%).

12 Trade payables and other liabilities

	2019 AED	2018 AED
Trade accounts payable	**4,486,482**	1,765,340
Accrued expenses and other payables	**1,017,224**	510,456
Profit payable on wakala deposits	**282,686**	287,409
	5,786,392	2,563,205

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

13 Employees' end of service benefits

	2019 AED	2018 AED
At 1 January	**381,096**	357,184
(Reversal) / charge for the year	**(92,427)**	187,341
Payments during the year	**(2,119)**	(163,429)
At 31 December	**286,550**	381,096

14 Share capital

	2019 AED	2018 AED
Authorised and paid-up share capital:		
126,500,000 shares (2018: 500,000,000 shares) of AED 1 each	**126,500,000**	126,500,000

15 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.

16 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. 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:

16 Related parties (continued)

	Shareholders and related parties AED	**Directors and key management AED**	**2019 Total AED**	Shareholders and related parties AED	Directors and key management AED	2018 Total AED
Related party balances						
Islamic financing assets	**25,346,236**	**3,594,106**	**28,940,342**	13,186,466	17,623,603	30,810,069
Other receivables						
Processing fee and commission receivables	**13,610**	**-**	**13,610**	13,610	-	13,610
Advance to Director	**-**	**8,465,841**	**-**	-	12,200,858	-
Depositors' accounts	**2,255,719**	**24,932**	**2,280,651**	2,861,240	96,358	2,957,598
Significant transactions with related parties:						
Income from Islamic financing	**2,005,212**	**141,255**	**2,146,467**	956,341	2,625,586	3,581,927
Distribution to depositors	**(5,987)**	**(619)**	**(6,606)**	(25,048)	(1,672)	(26,720)
Remuneration to key management personnel						
Short term employment benefits	-	**1,467,150**	**1,467,150**	-	779,700	779,700
Post-employment benefits	-	**21,447**	**21,447**	-	11,667	11,667

Commitments and contingencies as 31 December 2019 amounting to AED 514,375 was issued on behalf of related parties (2018: AED 734,375).

17 Income from Islamic financing

	2019 AED	2018 AED
Income from SME Murabaha	**36,438,946**	19,066,499
Income from Corporate Murabaha	**217,706**	1,509,347
Income from Retail Murabaha	**291**	656,011
Income from Salam Finance	**541,233**	359,762
Income from Ijara Finance	**7,035**	-
	37,205,211	21,591,619

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 ranged from 1.5% to 18% (2018: 2% to 24%) per annum.

18 Administrative expenses

	2019 AED	2018 AED
Staff cost	**16,139,775**	7,987,851
Sales commission	**3,335,266**	1,091,507
Depreciation (note 10)	**488,733**	367,086
Rent expense	**373,333**	316,667
Sharia fees	**360,000**	375,000
Directors' remuneration	**-**	300,000
Other	**4,544,429**	3,421,259
	25,241,536	13,859,370

19 Commitments and contingencies

The Company's bankers have issued the following letters of guarantee on behalf of the Company:

	2019 AED	2018 AED
Central Bank of the UAE	**35,000,000**	35,000,000

At 31 December 2019, the guarantees were secured by a cash deposit of AED 35 million (2018: AED 35 million).

The Company provided the following financial guarantees and bonds on behalf of its customers:

	2019	2018
Labor guarantees	**253,923,532**	324,714,250
Performance bonds	**86,782,420**	22,599,913
Advance payment guarantees	**63,648,057**	17,524,019
Bid/tender bonds	**30,114,299**	9,667,906
Financial guarantees	**26,915,769**	9,428,720
Letter of credit	**21,321,873**	635,443
	482,705,950	384,570,251

20 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 2019.

There is no impact on the Company's equity.

	Increase/decrease in basis points	*Effect on profit (loss) for the year AED*
2019		
AED	**+100**	**350,000**
AED	**-100**	**(350,000)**
2018		
AED	+100	455,000
AED	-100	(455,000)

20 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 2019 and 31 December 2018 based on contractual maturities.

2019	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	**58,935,040**	**84,968,763**	**193,016,947**	**1,472,985**	**338,393,735**
Deposits and other receivables	**31,841,590**	**45,776,178**	**294,081**	**63,295**	**77,975,144**
Cash and cash equivalents	**12,115,911**	**-**	**-**	**-**	**12,115,911**
	102,892,541	**130,744,941**	**193,311,028**	**1,536,280**	**428,484,790**
Financial liabilities					
Depositors' accounts	**286,361,233**	**18,676,780**	**67,285**	**2,400**	**305,107,698**
Trade payables and other liabilities	**5,672,410**	**111,165**	**2,816**	**2**	**5,786,393**
	292,033,643	**18,787,945**	**70,101**	**2,402**	**310,894,091**

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

20 Risk management (continued)

Liquidity risk management (continued)

2018	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	122,501,804	84,431,388	104,845,385	-	311,778,577
Wakala deposits with financial institutions	-	10,500,000	-	-	10,500,000
Deposits and other receivables	3,284,720	53,765,918	1,294,844	63,295	58,408,777
Bank balances	5,366,389	-	-	-	5,366,389
	131,152,913	148,697,306	106,140,229	63,295	386,053,743
Financial liabilities					
Depositors' accounts	263,927,981	26,489,240	15,321	66,000	290,498,542
Trade payables and other liabilities	2,423,009	138,925	410	861	2,563,205
	266,350,990	26,628,165	15,731	66,861	293,061,747

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 2019 and 2018. Capital comprises share capital, legal reserve and accumulated losses.

21 Capital Adequacy

The Company is licensed and regulated by the Central Bank of UAE. The Company's capital adequacy ratio as at 31 December 2019 is 22.2% (2018: 23.9%) 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 base comprises of share capital, statutory reserves and accumulated losses. The Company's risk management policy stipulates that total capital base should be a minimum of 15% 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.

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

21 Capital adequacy (continued)

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

	2019 AED	2018 AED
Total Capital Base	**119,249,118**	94,123,600
Total risk-weighted assets	**537,658,477**	392,787,821
Capital Adequacy (Total capital base/total risk-weighted assets)	**22.2%**	23.9%

22 Fair value of financial instruments

Financial assets include deposits and certain other receivables, Islamic financing assets and cash and cash equivalents. 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.

23 Subsequent events disclosure

The rapid spread of the coronavirus disease 2019 ("Covid-19") across the globe is causing disruptions to businesses and economic activity. On 11 March 2020, Covid-19 was declared as pandemic by the World Health Organisation. In response, the UAE has responded to this outbreak with various temporary restrictions to help contain the spread of the virus and support measures to mitigate the adverse implications on communities and the economy. Further, the UAE Government and the Central Bank have introduced considerable stimulus economic packages to support the economy, which would significantly ease the overall economic burden of the pandemic.

As it stands, the full extent of the impact of the COVID-19 pandemic on the Company's operational and financial performance is currently uncertain and will depend on many factors outside the Company's control, including, without limitation, the timing, extent, trajectory and duration of the pandemic, the development and availability of effective treatments and vaccines, the imposition of protective public safety measures, and the impact of the pandemic on the global economy and financial services industry in general. Additional future impacts on the Company may include, but are not limited to, material adverse effects on: the Company's supply chain; the Company's ability to execute its strategic plans; and the Company's profitability and cost structure.

The Company considers these events to be non-adjusting events subsequent to the reporting date. Management does not consider it practicable to provide a quantitative estimate of the potential impact of the outbreak on the Company's financial position and results for the year ending 31 December 2020. Nonetheless, the Company has assessed the impact of COVID-19 on its financial statements, which could result in greater variability that depend on these estimates and judgments.

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

23 Subsequent events disclosure (continued)

The Company has considered the impact of the pandemic on its customers, which are mainly composed of SMEs operating on various industry sectors including services, trading, construction and real estate, etc.

Credit exposures, corporate or individuals, are affected due to borrowers' reduced ability to meet their obligations. Individual and SME borrowers may be more vulnerable to the pandemic compared to large corporates. The forecasted negative growth in the overall world economy for 2020 will have its reflections on the higher number of defaults among customers, increased restructuring requirements, and more breach of covenants. Consequently, it is very likely to have customers moving from stage 1 to stage 2 due to the significant increase in credit risk (SICR). As at 30 June 2020, management has noted a 38% increase on the exposures classified as Stage 2. Furthermore, there were two instances of restructured loans, with outstanding balances amounting to AED 6.7 million.

In response to this situation, the Company continues to monitor and respond to all liquidity and funding requirements through its plan reflecting the current economic scenarios and the Company is taking proactive measures to monitor and manage the situation to the best of its abilities to support the long-term continuity of its business.

24 Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 3 September 2020.