

SIRAJ FINANCE PJSC

**Reports and financial statements
for the year ended
31 December 2018**

SIRAJ FINANCE PJSC

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	Pages
Board of Directors' Report	1
Independent auditor's report	2 - 5
Statement of financial position	6
Statement of profit or loss and other comprehensive income	7
Statement of changes in equity	8
Statement of cash flows	9
Notes to the financial statements	10 - 41

**Board of Directors' Report
for the year ended 31 December 2018**

The Directors have pleasure in submitting their report and the audited financial statements of Siraj Finance PJSC (the "Company") for the year ended 31 December 2018.

Principal activities

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

Results for the year

Total revenue for the year was AED 34,063,959 (2017: AED 10,666,914). Profit the year amounted to AED 14,423,477 (2017: AED 3,045,989).

Release

The Board releases from liability the management and external auditor in connection with their duties for the year ended 31 December 2018.

Directors

The Directors who served during the year are:

- Mr. Ahmed Khalaf Ahmed Al Otaiba (Chairman)
- Mr. Saad Al Junaibi (Vice Chairman)
- Mr. Bikash Ranjan Giri (member)

Auditors

A resolution proposing the reappointment of Deloitte & Touche (M.E.) as the external auditor of the Company for the year ending 31 December 2019 will be put to the Annual General Meeting.

On behalf of the Board of Directors

Chairman



INDEPENDENT AUDITORS' REPORT

To the Shareholders
Siraj Finance PJSC
Abu Dhabi
United Arab Emirates

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Siraj Finance PJSC (the "Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

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

Emphasis of matter

We draw attention to Note 4.2 to these financial statements, which states that the Company is currently in the development stage after the initiation of its restructuring. Accordingly, 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.

INDEPENDENT AUDITORS' REPORT (continued)**Other information**

The Board of Directors is responsible for the other information. The other information comprises the Board of Directors' report which we obtained prior to the date of this auditors' report. The other information does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

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

Responsibility of management and those charged with governance for the financial statements

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

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

The Board of Directors are responsible for overseeing the Company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

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

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

INDEPENDENT AUDITORS' REPORT (continued)**Auditors' responsibilities for the audit of the financial statements (continued)**

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- the financial statements of the Company have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Company has maintained proper books of account;
- the financial information included in the Board of Directors' report is consistent with the Company's books of account;
- based on the information that has been made available to us, the Company has not purchased or invested in any shares or stocks during the financial year ended 31 December 2018;
- note 16 to the financial statements of the Company discloses material related party transactions and the terms under which they were conducted;

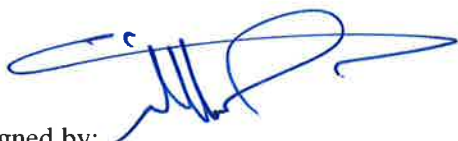
INDEPENDENT AUDITORS' REPORT (continued)**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS (continued)**

- for the year ended 31 December 2018, the Company was not compliant with Article 152 of UAE Federal Law No. 2 of 2015, which restricts entering into transactions with related parties exceeding 5% of the total share capital of the Company without consent of the Board of Directors and General Assembly; and

based on the information that has been made available to us, except for the matter described in the preceding paragraph, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2018.

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

Deloitte & Touche (M.E.)



Signed by:
Mohammaed Khamees Al Tah
Registration No. 717
12 May 2019
Abu Dhabi
United Arab Emirates

**Statement of financial position
for the year ended 31 December 2018**

	Notes	2018 AED	2017 AED
ASSETS			
Cash and cash equivalents	6	5,366,389	12,568,545
Wakala deposits with financial institutions	7	10,500,000	-
Islamic financing assets, net	8	311,778,577	120,005,643
Deposits, prepayments and other receivables	9	58,408,777	37,213,312
Furniture, fixtures & office equipment	10	1,512,700	873,482
		<hr/>	<hr/>
TOTAL ASSETS		387,566,443	170,660,982
		<hr/>	<hr/>
EQUITY AND LIABILITIES			
Liabilities			
Depositors' accounts	11	290,498,542	89,420,917
Trade payables and other liabilities	12	2,563,205	1,182,758
Employees' end of service benefits	13	381,096	357,184
		<hr/>	<hr/>
Total liabilities		293,442,843	90,960,859
		<hr/>	<hr/>
Equity			
Share capital	14	126,500,000	126,500,000
Legal reserve	15	1,855,075	412,727
Accumulated losses		(34,231,475)	(47,212,604)
		<hr/>	<hr/>
Total equity		94,123,600	79,700,123
		<hr/>	<hr/>
TOTAL EQUITY AND LIABILITIES		387,566,443	170,660,982
		<hr/>	<hr/>



Mr. Ahmed Khalaf Ahmed Al Otaiba
Chairman of the Board



Mr. Bikash Ranjan Giri
Board Member

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

**Statement of profit or loss and other comprehensive income
for the year ended 31 December 2018**

	Notes	2018 AED	2017 AED
Revenue			
Income from Islamic financing	17	21,591,619	4,099,089
Fees and commission income		12,374,069	6,331,091
Profit on Wakala deposits with financial institutions		98,271	236,734
		<hr/>	<hr/>
Total revenue		34,063,959	10,666,914
		<hr/>	<hr/>
Operating expenses			
Commission and fee expenses		(628,364)	(674,609)
Bank charges		(232,922)	(182,076)
Administrative expenses	18	(13,859,370)	(7,083,132)
		<hr/>	<hr/>
Total operating expenses		(14,720,656)	(7,939,817)
		<hr/>	<hr/>
Net impairment (charge)/reversal on Islamic financing assets	8	(4,236,040)	686,654
		<hr/>	<hr/>
Profit before distribution to depositors		15,107,263	3,413,751
Distribution to depositors		(683,786)	(367,762)
		<hr/>	<hr/>
Profit for the year		14,423,477	3,045,989
Other comprehensive income		-	-
		<hr/>	<hr/>
Total comprehensive income for the year		14,423,477	3,045,989
		<hr/>	<hr/>

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

**Statement of changes in equity
for the year ended 31 December 2018**

	Share capital AED	Legal reserve AED	Accumulated losses AED	Total AED
At 1 January 2017	126,500,000	108,128	(49,121,206)	77,486,922
Correction of error (note 23)	-	-	(832,788)	(832,788)
At 1 January 2017 (restated)	126,500,000	108,128	(49,953,994)	76,654,134
Total comprehensive income for the year	-	-	3,045,989	3,045,989
Transfer to legal reserve (note 15)	-	304,599	(304,599)	-
At 1 January 2018	126,500,000	412,727	(47,212,604)	79,700,123
Profit for the year	-	-	14,423,477	14,423,477
Transfer to legal reserve (note 15)	-	1,442,348	(1,442,348)	-
At 31 December 2018	126,500,000	1,855,075	(34,231,475)	94,123,600

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

**Statement of cash flows
for the year ended 31 December 2018**

	Notes	2018 AED	2017 AED
Operating activities			
Profit for the year		14,423,477	3,045,989
Non-cash adjustments:			
Depreciation	10	367,086	238,299
Provision for employees' end of service benefits	13	187,341	125,928
Net impairment charge/(reversal) on Islamic financing assets	8	4,236,040	(686,654)
		<u>19,213,944</u>	<u>2,723,562</u>
Working capital adjustments:			
Increase in Islamic financing assets		(196,008,974)	(66,120,623)
Increase in Wakala deposits with financial institutions		(10,500,000)	-
Increase in deposits, prepayments and other receivables		(21,195,465)	(87,195)
Increase in depositors' accounts		201,077,625	74,496,067
Increase in trade payables and other liabilities		<u>1,380,447</u>	<u>184,729</u>
Cash generated (used in)/from operations		<u>(6,032,423)</u>	<u>11,196,540</u>
Payment for employees' end of service benefits	13	(163,429)	(24,495)
Net cash flows (used in)/from operating activities		<u>(6,195,852)</u>	<u>11,172,045</u>
Investing activities			
Purchase of furniture, fixtures & office equipment	10	(1,006,304)	(565,883)
Net cash flows used in investing activities		<u>(1,006,305)</u>	<u>(565,883)</u>
(Decrease)/increase in cash and cash equivalents		<u>(7,202,156)</u>	<u>10,606,162</u>
Cash and cash equivalents at 1 January		<u>12,568,545</u>	<u>1,962,383</u>
Cash and cash equivalents at 31 December	6	<u>5,366,389</u>	<u>12,568,545</u>

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

**Notes to the financial statements
for the year ended 31 December 2018****1 General information**

Siraj Finance PJSC (the “Company”) is a private joint stock company incorporated and registered in Abu Dhabi, United Arab Emirates (UAE) 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 consolidated financial statements with the meanings specified:

Murabaha

A sale contract, in which 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.

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 between the Company and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (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 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.

Wakalah

A contract between the Company and a customer whereby one party (the principal: the Muwakkil) appoints the other 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.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

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, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these financial statements.

The Company applied for the first time, IFRS 9 *Financial Instruments* that is allowed to be applied retrospectively with adjustments to be made in the opening retained earnings. As required by IAS 1 *Presentation of Financial Statements*, the nature and effect of these changes are disclosed in Note 3.3 of the financial statements. The impact of adopting IFRS 9 on transition, i.e. 1 January 2018, was determined to be immaterial and therefore no adjustment is made to the opening retained earnings.

In the current period, the Company has also applied the following amendments to IFRSs issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for an accounting period that begins on or after 1 January 2018. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Company’s future transactions or arrangements.

- IFRS 15 *Revenue from Contracts with Customers*
- Conceptual Framework for Financial Reporting 2018
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* deleting short-term exemptions for first-time adopters
- Amendments to IFRS 2 *Share-based Payment Transactions* clarifying the classification and measurement of share-based payment transactions
- Amendments to IFRS 4 *Insurance Contracts* applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*
- Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9
- Amendments to IAS 40 *Investment properties* clarifying transfers of property to, or from, investment property
- Annual Improvements to IFRSs 2014–2016 Cycle to remove short-term exemptions and clarifying certain fair value measurements
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2018.

3.2 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:

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	1 January 2019

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

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

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

New and revised IFRSs

**Effective for
annual periods
beginning on or after**

IFRIC 23 Uncertainty over Income Tax Treatments

1 January 2019

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.

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 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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

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

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

New and revised IFRSs

**Effective for
annual periods
beginning on or after**

IFRS 17 Insurance Contracts

1 January 2022

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 2022.

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.

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

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 16 will be adopted in the Company's financial statements for the annual period beginning 1 January 2019. The application of IFRS 16 will not 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.

3.3 Impact of initial application of IFRS 9 *Financial Instruments*

The Company has adopted IFRS 9 *Financial Instruments* as issued by the IASB in July 2014 with a date of transition of 1 January 2018. IFRS 9 addresses all aspects of financial instruments including classification and measurement, impairment and hedge accounting. The adoption of IFRS 9 by the Company primarily resulted in changes in accounting policies, whereas no adjustments are made to amounts previously recognised, as the impact was considered to be immaterial. The Company did not early adopt any of the IFRS 9 versions in previous periods. As permitted by transitional provisions of IFRS 9, the Company elected not to restate the comparative figures.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

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

3.3 Impact of initial application of IFRS 9 *Financial Instruments* (continued)

After adopting IFRS 9 at 1 January 2018, no change was made in the measurement category and the carrying amount of financial assets and financial liabilities in accordance with IAS 39. Moreover, as the impact on allowance for impairment under the new Expected Credit Loss (ECL) model was considered to be immaterial, there is no reconciliation required from prior year's closing allowance for impairment under the IAS 39 incurred loss model to the new allowance for impairment measured in accordance with the IFRS 9 expected loss model at 1 January 2018.

The classification and measurement requirement of IFRS 9 (2014) does not have a material impact on the financial statements. Refer to note 4 for the accounting policies under IFRS 9 and under IAS 39.

(a) Classification and measurement:

The standard requires the Company to consider two criteria when determining the measurement basis for financial assets:

- (i) its business model for managing those financial assets; and
- (ii) cash flow characteristics of the assets.

Based on these criteria, financial assets are measured at amortized cost, fair value through OCI, or fair value through profit or loss. Equity instruments are measured at fair value through profit or loss. However, the Company may, at initial recognition of a non-trading equity instrument, irrevocably elect to designate the instrument as fair value through OCI, with no subsequent recycling to profit and loss, while recognizing dividend income in profit and loss.

In addition, the Company may, at initial recognition, irrevocably elect to designate a financial asset as fair value through profit or loss, if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. This designation is also available to existing financial assets.

For financial liabilities, there were no changes to classification and measurement.

(b) Impairment:

The standard introduces a new single model for the measurement of impairment losses on all financial assets including financial assets measured at amortized cost or at fair value through OCI. The IFRS 9 expected credit loss (ECL) model replaces the current "incurred loss" model of IAS 39. The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

Stage 1: 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months and Loss Given Default (LGD).

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

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

3.3 Impact of initial application of IFRS 9 *Financial Instruments* (continued)

(b) Impairment: (continued)

Stage 2: Under Stage 2, where there has been a SICR since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the lifetime ECL will be recorded which is computed using lifetime PD, LGD and Exposure at Default (EAD) measures. Provisions are expected to be higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3: Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

(c) Hedging:

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 hedge accounting requirements do not effect the Company as currently there are no exposures under hedge accounting.

(d) Financial instruments: disclosures (IFRS 7):

The Company has amended the disclosures for the current period to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.

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 Company is currently in the development stage after the initiation of its restructuring. Accordingly, the Company's accumulated losses amounted to AED 34,231,475 as at 31 December 2018. 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.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

4 Significant accounting policies (continued)

4.2 Basis of preparation (continued)

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.

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

Murabaha, Salam and Wakala income 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.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

4 Significant accounting policies (continued)

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
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 (Accounting policy applicable from 1 January 2018)

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.

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.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

4 Significant accounting policies (continued)

4.5 Financial instruments (Accounting policy applicable from 1 January 2018) (continued)

Financial assets (continued)

Classification of financial assets (continued)

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 bank balances, Wakala deposits with financial institutions, Islamic financing assets and deposits and other receivables.

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..

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

4 Significant accounting policies (continued)

4.5 Financial instruments (Accounting policy applicable from 1 January 2018) (continued)

Financial assets (continued)

Amortised cost and effective interest method (continued)

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 bank balances, 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

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.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

4 Significant accounting policies (continued)

4.5 Financial instruments (Accounting policy applicable from 1 January 2018) (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(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.

(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.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

4 Significant accounting policies (continued)

4.5 Financial instruments (Accounting policy applicable from 1 January 2018) (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(v) Measurement and recognition of expected credit losses (continued)

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.

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.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

4 Significant accounting policies (continued)

4.5 Financial instruments (Accounting policy applicable from 1 January 2018) (continued)

Classification as financial liability or equity (continued)

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.

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 Financial instruments (Accounting policy applicable before 1 January 2018)

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities 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 and financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets and financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Company's financial assets are classified under 'loans and receivables'. Loans and receivables consist of cash and bank balances, Wakala deposits with financial institutions, Islamic financing assets and deposits and other receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

4 Significant accounting policies (continued)

4.6 Financial instruments (Accounting policy applicable before 1 January 2018) (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Financial assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of financial assets could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

4 Significant accounting policies (continued)

4.6 Financial instruments (Accounting policy applicable before 1 January 2018) (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.

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.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

4 Significant accounting policies (continued)

4.7 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.

4.8 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.

4.9 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.

4.10 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.

4.11 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.

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.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

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

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 consolidated financial statements.

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Company monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

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 (FLI) 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.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

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

5.1 Critical accounting judgements (continued)

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios (continued)

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.

5.2 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 (applicable from 1 January 2018)

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 2018, the ECL on Islamic financing assets amounts to AED 6,732,074.

Measurement of impairment loss on Islamic financing assets (applicable before 1 January 2018)

Application of the methodology for assessing loan impairment, as set out in Note 4, 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.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

6 Cash and cash equivalents

	2018 AED	2017 AED
Cash in hand	292,288	14,887
Current account with banks	5,074,101	12,553,658
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Cash and cash equivalents, net	5,366,389	12,568,545
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Bank balances are held within United Arab Emirates.

7 Wakala deposits with financial institutions

Wakala deposits are placed with financial institutions with original maturity of one year. Profit rate was 2.1%. All Wakala deposits are placed with financial institutions within the UAE.

8 Islamic financing assets, net

	2018 AED	2017 AED
SME murabaha	346,064,083	85,435,373
Corporate murabaha	9,452,328	33,044,603
Retail murabaha	7,591,442	7,469,065
Retail salam	3,565,353	917,871
	<hr/>	<hr/>
	366,673,206	126,866,912
Less: deferred profit on murabaha financing	(48,150,826)	(4,353,506)
	<hr/>	<hr/>
	318,522,380	122,513,406
	<hr/>	<hr/>
Allowance for impairment	(6,743,803)	(2,507,763)
	<hr/>	<hr/>
	311,778,577	120,005,643
	<hr/>	<hr/>

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

8 Islamic financing assets, net (continued)

Movement in allowance for impairment for the year ended 31 December 2018 was as follows:

	2018		
	Stage 1 AED	Stage 2 AED	Stage 3 AED
At 1 January	180,926	2,326,837	-
Charge for the year	155,584	3,228,474	851,982
At 31 December	336,510	5,555,311	851,982

Movement in allowance for impairment for the year ended 31 December 2017 was as follows:

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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

8 Islamic financing assets, net (continued)

All Islamic financing assets are in the United Arab Emirates.

	2018			2017		
	Corporate and SME AED	Retail AED	Total AED	Corporate and SME AED	Retail AED	Total AED
Stage 3/Past due and impaired						
Substandard	3,126,815	-	3,126,815	-	-	-
Allowance for impairment	-	-	(851,982)	-	-	-
Carrying amount	3,126,815	-	2,274,833	-	-	-
Stage 2/Past due but not impaired						
Less than 60 days	81,742,219	805,605	82,547,824	62,773,152	7,099,105	69,872,257
Less than 90 days	15,908	-	15,908	-	-	-
Allowance for impairment	-	-	(5,555,311)	-	-	-
Carrying amount	81,758,127	805,605	77,008,421	62,773,152	7,099,105	69,872,257
Stage 1/Not past due						
Allowance for impairment	230,164,263	2,667,570	232,831,833	51,402,672	1,238,477	52,641,149
			(336,510)	-	-	-
Carrying amount	230,164,263	2,667,570	232,495,323	62,773,152	7,099,105	69,872,257
Collective allowance	-	-	-	(2,382,699)	(125,064)	(2,507,763)
Total outstanding	315,049,205	3,473,175	318,522,380	114,175,824	8,337,582	122,513,406
Total allowance for impairment			(6,743,803)	(2,382,699)	(125,064)	(2,507,763)
Total carrying amount	315,049,205	3,473,175	311,778,577	111,793,125	8,212,518	120,005,643

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

8 Islamic financing assets, net (continued)

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

	2018 AED	2017 AED
Industry:		
Trade	109,146,903	62,839,684
Services	103,717,935	12,989,679
Professional, scientific and technical	52,235,827	36,333,992
Transport, storage and communication	18,067,318	314,606
Construction and real estate	12,867,884	1,648,509
Individuals	11,064,617	8,386,936
Electricity, gas and water	7,752,593	-
Manufacturing	3,669,303	-
	<hr/>	<hr/>
	318,522,380	122,513,406
	<hr/>	<hr/>

9 Deposits, prepayments and other receivables

	2018 AED	2017 AED
Guarantee deposit (a)	35,000,000	35,000,000
Advance to Director (b)	12,200,858	-
Advances and other receivables	5,884,318	418,710
Prepayments	5,298,341	469,424
Processing fee and commission receivable	14,318	1,292,347
Accrued income on bank deposits	10,942	32,831
	<hr/>	<hr/>
	58,408,777	37,213,312
	<hr/>	<hr/>

(a) Guarantee deposit represents cash deposited with one of the local bank in order to issue a bank guarantee and carries profit rate of 0.7% per annum during the year (2017: 0.6% to 0.7%).

(b) This amount is unsecured, interest free and repayable on demand (note 16).

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

10 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 2017	176,438	1,013,041	2,263,581	4,788,511	8,241,571
Correction of error (note 23)	-	-	-	275,850	275,850
At 1 January 2017 (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
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
Accumulated depreciation					
At 1 January 2017	133,146	943,116	2,263,581	4,585,705	7,925,548
Correction of error (note 23)	-	-	-	45,975	45,975
At 1 January 2017 (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
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
Net carrying amount					
At 31 December 2018	857,990	261,908	-	392,802	1,512,700
At 31 December 2017 (restated)	310,766	67,781	-	494,935	873,482

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

11 Depositors' accounts

	2018 AED	2017 AED
Margin accounts	243,762,833	59,877,460
Wakala deposits	32,123,738	29,509,600
Current accounts	14,611,971	33,857
	<hr/>	<hr/>
	290,498,542	89,420,917
	<hr/>	<hr/>
Industry sector		
Corporates	51,175,067	21,325,206
Small and medium enterprises	239,323,475	68,095,711
	<hr/>	<hr/>
		89,420,917
	<hr/>	<hr/>

All Islamic financing assets are in the United Arab Emirates.

The profit rates on wakala deposits ranges from 1% to 2.5% (2017: 1.46% to 2.25%).

12 Trade payables and other liabilities

	2018 AED	2017 AED
Trade accounts payable	1,765,340	140,937
Accrued expenses and other payables	510,457	818,584
Profit payable on wakala deposits	287,409	223,237
	<hr/>	<hr/>
	2,563,206	1,182,758
	<hr/>	<hr/>

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

13 Employees' end of service benefits

	2018 AED	2017 AED
At 1 January	357,184	255,751
Charge for the year	187,341	125,928
Payments during the year	(163,429)	(24,495)
	<hr/>	<hr/>
At 31 December	381,096	357,184
	<hr/>	<hr/>

14 Share capital

	2018 AED	2017 AED
<i>Authorised and paid-up share capital:</i>		
126,500,000 shares (2017: 500,000,000 shares) of AED 1 each	126,500,000	126,500,000
	<hr/>	<hr/>

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:

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

16 Related parties (continued)

	Shareholders and related parties AED	Directors and key management AED	2018 Total AED	Shareholders and related parties AED	Directors and key management AED	2017 Total AED
<i>Related party balances</i>						
Islamic financing assets	13,186,466	17,623,603	30,810,069	14,819,898	16,934,553	31,754,451
Other receivables						
processing fee and commission receivables	13,610	-	13,610	1,083,362	208,278	1,291,640
Advance to Director	-	12,200,858	12,200,858	-	-	-
Depositors accounts	2,861,240	96,358	2,957,598	3,959,860	96,384	4,056,244
<i>Significant transactions with related parties:</i>						
Income from murabaha financing	956,341	2,625,586	3,581,927	554,497	1,221,924	1,776,421
Distribution to depositors	(13,230)	(1,920)	(15,150)	(25,048)	(1,672)	(26,720)
Directors' remuneration	-	300,000	300,000	-	-	-
<i>Remuneration to key management personnel</i>						
Short term employment benefits	-	779,700	779,700	-	555,096	555,096
Post-employment benefits	-	21,560	21,560	-	21,560	21,560

Commitments and contingencies as 31 December 2018 was amounting to AED 734,375 issued on behalf of related parties (2017: AED 16,000,920).

17 Income from Islamic financing

	2018 AED	2017 AED
SME Murabaha	19,066,499	1,898,082
Corporate Murabaha	1,509,347	1,540,426
Retail Murabaha	656,011	627,588
Salam Finance	359,762	32,993
	<u>21,591,619</u>	<u>4,099,089</u>

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 2% to 24% (2017: 5.5% to 24%) per annum.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

18 Administrative expenses

	2018	2017
	AED	AED
Staff cost	7,987,851	3,429,065
Sales commission	1,091,507	1,039,441
Sharia fees	375,000	360,000
Depreciation (note 10)	367,086	238,299
Rent expense	316,667	118,333
Directors' remuneration	300,000	-
Other	3,421,259	1,897,993
	13,859,370	7,083,132

19 Commitments and contingencies

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

	2018	2017
	AED	AED
Central Bank of the UAE	35,000,000	35,000,000

At 31 December 2018, the guarantees were secured by a cash deposit of AED 35 million (2017: AED 35 million). During the year, this guarantee was transferred from Abu Dhabi Islamic Bank PJSC (the "old issuer") to Commercial Bank of Dubai PSC (the "new issuer"). However, as at 31 December 2018, the old issuer has not cancelled the guarantee.

	2018	2017
Labor guarantees	324,714,250	100,699,939
Bid/tender bonds	9,667,906	14,166,364
Performance bonds	22,599,913	7,441,717
Advance payment guarantees	17,524,019	5,416,384
Financial guarantees	9,428,720	5,678,720
Letter of credit	635,443	-
	384,570,251	133,403,124

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

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 2018.

There is no impact on the Company's equity.

	<i>Increase/decrease in basis points</i>	<i>Effect on profit (loss) for the year AED</i>
2018		
AED	+100	455,000
AED	-100	(455,000)
2017		
AED	+100	350,000
AED	-100	(350,000)

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

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 2018 and 31 December 2017 based on contractual maturities.

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					
Depositor's 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

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

20 Risk management (continued)

Liquidity risk management (continued)

2017	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
	<u>89,202,964</u>	<u>52,287,544</u>	<u>20,143,394</u>	<u>8,138,711</u>	<u>169,772,613</u>
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
	<u>65,834,975</u>	<u>24,551,665</u>	<u>18,000</u>	<u>199,035</u>	<u>90,603,675</u>

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
2018					
Depositor's 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
	<u>266,350,990</u>	<u>26,628,165</u>	<u>15,731</u>	<u>66,861</u>	<u>293,061,747</u>
2017					
Depositor'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
	<u>67,309,774</u>	<u>24,515,278</u>	<u>20,160</u>	<u>199,035</u>	<u>92,044,247</u>

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

20 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 2018 and 2017. 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 Central Bank's capital adequacy stipulation for finance companies is a minimum 15%. The Company's capital adequacy ratio as at 31 December 2018 is 23.9% (2017: 47.9%) 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 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:

	2018 AED	2017 AED
Total Capital Base	94,123,600	79,700,123
Total risk weighted assets	392,787,821	167,184,156
Capital Adequacy (Total capital base/total risk weighted assets)	23.9%	47.7%

22 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.

**Notes to the financial statements
for the year ended 31 December 2018 (continued)**

23 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 payable and other liabilities	(411,274)	(586,755)	(998,029)
	<hr/>	<hr/>	<hr/>
Net assets	37,506,774	(832,788)	36,673,986
	<hr/>	<hr/>	<hr/>
Accumulated losses	(49,121,206)	(832,788)	(49,953,994)
	<hr/>	<hr/>	<hr/>
Statement of profit or loss and other comprehensive income (extract)			
Fee and commission income	1,915,935	(440,650)	1,475,285
	<hr/>	<hr/>	<hr/>
Administrative expenses	(3,503,238)	(392,138)	(3,895,376)
	<hr/>	<hr/>	<hr/>

24 Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 30 April 2019.