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.

These financial statements for the year ended December 31, 2020 were authorised for issue by the Board of Directors on July 06, 2021.

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 instalments. 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 Standards

New standards, interpretations and amendments effective from 1 January 2020

The Company has adopted the following new standards and amendments in these financial statements for the year ended 31 December 2020 which have not had a significant effect on the Company:

- Definition of a Business (Amendments to IFRS 3);
- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment - Disclosure Initiative - Definition of Material);
- Revisions to the Conceptual Framework for Financial Reporting; and
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Company's has decided not to adopt early. The most significant of these are as follows:

- Interest Rate Benchmark Reform - IBOR 'phase 2' (Amendments to IFRS 9, IAS 32, IFRS 7, IFRS 4, and IFRS 16) - Effective from January 1, 2021;
- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37) - Effective from January 1, 2022;
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) - Effective from January 1, 2022;
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41) - Effective from January 1, 2022;
- References to Conceptual Framework (Amendments to IFRS 3) - Effective from January 1, 2022;
- Classification of liabilities as current or non-current (Amendments to IAS 1) - Effective from January 1, 2023
- COVID-19-Related Rent Concessions (Amendments to IFRS 16) - Effective from June 1, 2020

The Company is currently assessing the impact of these new accounting standards and amendments and does not believe that these amendments will have a significant impact on the financial statements.

Other standards

The Company does not expect following other standards issued by IASB, but not yet effective, to have a material impact on the Company.

- IFRS 17 Insurance Contracts (effective January 1, 2023) - In June 2020, the IASB issued amendments to IFRS 17, including a deferral of its effective date to January 1, 2023.

4 Significant accounting policies

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 Significant accounting policies (Continued)

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.

The significant accounting policies adopted are as follows:

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
Vehicles	5 years
Computer software and hardware	4 years

4 Significant accounting policies (Continued)

Furniture, fixtures and office equipment (Continued)

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.

Capital work in progress

Capital work in progress is stated at cost and not depreciated until such time the assets ready for intended use and transferred to the respective categories of furniture, fixtures and office equipment.

Financial 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 or 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.

4 **Significant accounting policies (Continued)**

Financial Instrument (Continued)

Financial assets (Continued)

Classification of financial assets (Continued)

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.

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.

4 Significant accounting policies (Continued)

Financial Instrument (Continued)

Financial assets (Continued)

Amortised cost and effective interest method (Continued)

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.

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.

4 Significant accounting policies (Continued)

Financial Instrument (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

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.

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.

4 Significant accounting policies (Continued)

Financial Instrument (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

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.

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.

4 Significant accounting policies (Continued)

Financial Instrument (Continued)

Financial liabilities (Continued)

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.

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.

Share Capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's ordinary shares are classified as equity instruments.

Legal reserve

Pursuant to the Company's Article of Association, 10% of profit for the year to be withheld annually and retained in statutory reserve account. The deduction shall be suspended when the balance in this reserve account amounts to at least 50% of the Company's share capital.

Provisions

A provision is recognized in the statement of financial position when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

4 Significant accounting policies (Continued)

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.

Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 'Arab Emirates Dirham' (AED), which is the Company's functional and the presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in statement of profit or loss and other comprehensive income.

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.

Leases

Identifying Leases

The Company accounts for a contract, or a portion of a contract, as a lease when it conveys the right to use and asset for a period of time in exchange for consideration. Leases are those contracts that satisfy the following criteria:

4 Significant accounting policies (Continued)

Leases (Continued)

- There is an identified asset;
- The Company obtains substantially all the economic benefits from use of the asset; and
- The Company has the right to direct use of the asset.

The Company considers whether the supplier has substantive substitution rights. If the supplier does have those rights, the contract is not identified as giving rise to a lease.

In determining whether the Company obtains substantially all the economic benefits from use of the asset, the Company considers only the economic benefits that arise of the asset, not those incidental to legal ownership or other potential benefits.

In determining whether the Company has the right to direct use of the asset, the Company considers whether it directs how and for what purpose the asset is used throughout the period of use. If there are no significant decisions to be made because they are pre-determined due to the nature of the asset, the Company considers whether it was involved in the design of the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use. If the contract or portion of a contract does not satisfy these criteria, the Company applies other applicable IFRSs rather than IFRS 16.

Accounting for leases (as a lessee)

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a term of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Company's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes: amounts expected to be payable under any residual value guarantee; the exercise price of any purchase option granted in favour of the Company if it is reasonable certain to assess that option; any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Company is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

4 Significant accounting policies (Continued)

Leases (Continued)

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

Value added tax

VAT asset/liability is recorded in the financial statements of the Company based on the requirements of the regulations as defined by the Federal Tax Authority (FTA).

Expenses and assets are recognised net of the amount of value added tax, except:

- When the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

- When receivables and payables are stated with the amount of value added tax included.

The net amount of value added tax receivable/payable from/to the taxation authority is included as part of receivables/payables in the financial statements.

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.

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.

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

Critical accounting judgements (Continued)

Macroeconomic factors and 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.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the date of the statement of financial position, that 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.

Estimation of uncertainties relating to the global health pandemic from Coronavirus (COVID 19)

In March 2020, the World Health Organization (WHO) declared a new strain, COVID19, as a pandemic outbreak after finding the increase in exposure and infections across the world. To contain the outbreak in the United Arab Emirates, the government has enforced restriction of movement for both people and goods including the closure of both inbound and outbound flights to and from the country. The outbreak comes with unpredictable human and economic consequences and its evolution remains unknown at the date of the issuance of the financial statements.

As the situation is rapidly evolving, the impact on the Company's activities and operations is extraordinarily uncertain, however, the Company has performed a COVID-19 assessment to determine whether there is significant concern towards the Company's operations, business continuity, liquidity and other legal obligation to external parties. The Company has not identified any negative impact in the assessment performed.

The Company has also considered the possible effects that may result from the pandemic relating to COVID-19 on the carrying amounts of its furniture, fixtures and office equipment and Islamic financing assets. In developing the assumptions relating to the possible future uncertainties in the global economic conditions because of this pandemic, the Company, as at the date of approval of these financial statements has used internal and external sources of information including delays in expected future cash flows as a result of delay in payments from customers and economic forecasts.

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

Key sources of estimation uncertainty (Continued)

Estimation of uncertainties relating to the global health pandemic from Coronavirus (COVID 19) (Continued)

The Company has also considered the continuity of its operations without any disruptions by adherence to standard operating procedures. The Company has also performed sensitivity analysis on the assumptions used and based on current estimates expects the carrying amount of these assets will be recovered.

The Company will continue to revisit its assumptions and estimates depending on the situation and data availability to arrive with a better estimate of the COVID-19 impact. The impact of COVID-19 on the Company's financial statements may differ from that estimate as at the date of approval of these financial statements.

Useful lives of furniture, fixtures and office equipment

Furniture, fixtures and office equipment are depreciated over their estimated useful lives, which is based on estimates for expected usage of the asset and expected physical wear and tear which are dependent on operational factors. Management has not considered any residual value as it is deemed immaterial.

Impairment of furniture, fixtures and office equipment

The Company reviews its furniture, fixtures and office equipment to assess impairment, if there is an indication of impairment. In determining whether impairment losses should be recorded in the statement of profit or loss and other comprehensive income, the Company makes judgment as to whether there is any observable data indicating that there is a reduction in the carrying value of furniture, fixtures and office equipment. Accordingly, provision for impairment is made when there is an identified loss event or condition which, based on previous experience, is evidence of a reduction in the carrying value of furniture, fixtures and office equipment.

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.

6 Cash and cash equivalents

	2020 **AED**	2019 AED
Cash in hand	**187,663**	363,989
Current account with banks	**37,840,823**	11,751,922
Cash and cash equivalents	**38,028,486**	12,115,911

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

7 Islamic financing assets, net

	2020 AED	2019 AED
SME Murabaha	**464,364,166**	446,907,739
Corporate Murabaha	**1,381,446**	2,867,434
Retail Murabaha	**355,711**	-
Retail Salam	**2,272,033**	4,949,334
Retail Ijara	**-**	86,296
	468,373,356	454,810,803
Less: Deferred profit on murabaha financing	**(93,115,641)**	(100,720,409)
	375,257,715	354,090,394
Allowance for impairment	**(23,898,248)**	(15,696,659)
	351,359,467	338,393,735

Movement in allowance for impairment for the year ended 31 December 2020 and 2019 were as follows:

	2020			
	Stage 1 AED	**Stage 2 AED**	**Stage 3 AED**	**Total AED**
At 1 January	**364,556**	**7,727,418**	**7,604,685**	**15,696,659**
Charge for the year, net	**159,876**	**910,111**	**7,131,602**	**8,201,589**
At 31 December	**524,432**	**8,637,529**	**14,736,287**	**23,898,248**

	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	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

7 Islamic financing assets, net (continued)

Below is the breakdown of the Company's exposure by credit quality as of 31 December 2020 and 2019:

	2020			2019		
	Corporate and SME AED	Retail AED	Total AED	Corporate and SME AED	Retail AED	Total AED
Stage 3:						
Substandard	40,862,363	-	40,862,363	24,820,485	-	24,820,485
Allowance for impairment	-	-	(14,736,287)	-	-	(7,604,685)
Carrying amount	40,862,363	-	26,126,076	24,820,485	-	17,215,800
Stage 2:						
Less than 60 days	22,013,105	426,490	22,439,595	39,427,027	630,656	40,057,683
Less than 90 days	13,660	1,881	15,541	2,042	-	2,042
Allowance for impairment	-	-	(8,637,529)	-	-	(7,727,418)
Carrying amount	22,026,765	428,371	13,817,607	39,429,069	630,656	32,332,307
Stage 1:	309,756,930	2,183,286	311,940,216	284,805,210	4,404,974	289,210,184
Allowance for impairment	-	-	(524,432)	-	-	(364,556)
Carrying amount	309,756,930	2,183,286	311,415,784	284,805,210	4,404,974	288,845,628
Total outstanding amount	372,646,058	2,611,657	375,257,715	349,054,764	5,035,630	354,090,394
Total allowance for impairment	-	-	(23,898,248)	-	-	(15,696,659)
Total carrying amount	372,646,058	2,611,657	351,359,467	349,054,764	5,035,630	338,393,735

All Islamic financing assets are in the United Arab Emirates.

7 Islamic financing assets, net (continued)

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

	2020 AED	2019 AED
Industry sector		
Services	**116,626,804**	116,753,504
Trade	**66,168,601**	65,087,803
Professional, scientific and technical	**57,475,890**	62,866,262
Construction and real estate	**56,394,927**	43,980,408
Transport, storage and communication	**38,270,619**	28,712,098
Manufacturing	**23,060,206**	22,777,920
Electricity, gas and water	**12,677,148**	6,625,296
Individuals	**2,569,172**	5,035,166
Financial and insurance activities	**2,014,348**	2,251,937
Total outstanding amount	**375,257,715**	354,090,394

8 Deposits, prepayments and other receivables

	2020 AED	2019 AED
Guarantee deposit (note 8.1)	**-**	35,000,000
Advances and other receivables	**3,490,584**	26,637,428
Prepayments	**7,160,288**	4,396,832
Advance to Director (note 15)	**-**	8,465,841
Other receivables (note 8.2)	**10,236,794**	3,239,058
Accrued income on bank deposits	**-**	221,667
Processing fee and commission receivable	**14,318**	14,318
	20,901,984	77,975,144

8.1 Guarantee deposit represented cash deposited with a local bank for issuance of a bank guarantee and carries profit rate of 4% per annum (2019: 4%). The guarantee deposit placed with local bank was reclaimed by the Company during the year.

8.2 Other receivables represent liquidation of the guarantees issued by the Company. These amounts have been paid by the Company to third parties on account of liquidation of the guarantees which were issued on behalf of the customers.

9 Furniture, fixtures and office equipment

	Furniture and fixtures AED	Office equipment AED	Vehicles AED	Computer software and hardware AED	Capital Work In Progress AED	Total AED
Cost						
At 1 January 2019	1,021,138	355,620	-	843,771	-	2,220,529
Additions	93,300	40,551	136,190	117,625	533,333	920,999
At 31 December 2019	1,114,438	396,171	136,190	961,396	533,333	3,141,528
Additions	5,943	28,106	-	215,597	1,966,004	2,215,650
At 31 December 2020	**1,120,381**	**424,277**	**136,190**	**1,176,993**	**2,499,337**	**5,357,178**
Accumulated depreciation						
At 1 January 2019	163,148	93,712	-	450,969	-	707,829
Charge for the year	149,460	94,541	17,333	227,398	-	488,732
At 31 December 2019	312,608	188,253	17,333	678,367	-	1,196,561
Charge for the year	160,003	91,088	27,238	179,868	-	458,197
At 31 December 2020	472,611	279,341	44,571	858,234	-	1,654,758
Net carrying amount						
At 31 December 2020	**647,770**	**144,936**	**91,619**	**318,759**	**2,499,337**	**3,702,420**
At 31 December 2019	801,831	207,918	118,857	283,029	533,333	1,944,968

10 Depositors' accounts

	2020 AED	2019 AED
Margin accounts	**202,508,692**	235,593,055
Current accounts	**9,494,649**	45,215,001
Wakala deposits	**15,866,931**	24,299,642
	227,870,272	305,107,698
Industry sector		
Corporates	**7,819,978**	3,131,240
Small and medium enterprises	**220,050,294**	301,976,458
	227,870,272	305,107,698

All depositors' accounts are in the United Arab Emirates.

The profit rates on wakala deposits ranges from 1.00% to 4.00% (2019: 1.00% to 3.00%).

11 Trade payables and other liabilities

	2020 AED	2019 AED
Trade accounts payable	**14,618,709**	4,486,482
Accrued expenses and other payables	**4,072,543**	515,482
Profit payable on wakala deposits	**218,570**	282,686
VAT payable, net	**666,806**	501,742
	19,576,628	5,786,392

12 Employees' end of service benefits

	2020 AED	2019 AED
At 1 January	**286,550**	381,096
Charge / (reversal) for the year	**250,654**	(92,427)
Payments during the year	**(3,222)**	(2,119)
At 31 December	**533,982**	286,550

13 Share capital

	2020 AED	2019 AED
Authorised and paid-up share capital:		
156,500,000 shares (2019: 126,500,000 shares) of AED 1 each	**156,500,000**	**126,500,000**

During the year, the shareholders injected additional capital amounting to AED 30 million in order to meet the capital requirements of the Company.

14 Legal reserve

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

15 Related parties

The Company considers any other entities or companies, which are owned by the shareholders, either wholly or in partnership with others, as related parties. Balances with related parties arise generally from commercial transactions in the normal course of business. 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 and statement of profit or loss and other comprehensive income are as follows:

15 Related parties (continued)

	Shareholders and related parties AED	Directors and key management AED	2020 Total AED	Shareholders and related parties AED	Directors and key management AED	2019 Total AED
Related party balances						
Islamic financing assets	12,194,336	-	12,194,336	25,346,236	3,594,106	28,940,342
Other receivables						
Processing fee and commission receivables	13,610	-	13,610	13,610	-	13,610
Advance to Director	-	-	-	-	8,465,841	8,465,841
Other receivable	260,977	-	260,977	-	-	-
Depositors' accounts	2,591,151	24,932	2,616,083	2,255,719	24,932	2,280,651
Other trade payables	21,399	-	21,399	-	-	-
Significant transactions with related parties:						
Income from Islamic financing	744,458	2,682	747,140	2,005,212	141,255	2,146,467
Distribution to depositors	(5,468)	-	(5,468)	(5,987)	(619)	(6,606)
Remuneration to key management personnel						
Short term employment benefits	-	2,566,945	2,566,945	-	1,467,150	1,467,150
Post-employment benefits	-	112,933	112,933	-	21,447	21,447
Board members' employment benefit	-	2,247,916	2,247,916	-	3,250,000	3,250,000

Commitments and contingencies as 31 December 2020 amounting to AED 339,375 was issued on behalf of related parties (2019: AED 514,375).

16 Income from Islamic financing

	2020 AED	2019 AED
Income from SME Murabaha	38,552,873	36,438,946
Income from Corporate Murabaha	214,149	217,706
Income from Retail Murabaha	3,864	291
Income from Salam Finance	310,772	541,233
Income from Ijara Finance	-	7,035
	39,081,658	37,205,211

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 4.0% to 18% (2019: 1.5% to 18%) per annum.

17 Administrative expenses

	2020 AED	2019 AED
Staff cost	**19,206,977**	16,277,008
Sales commission	**2,876,862**	3,335,266
Allowance for legal settlement	**2,656,700**	-
Legal and professional fees	**3,105,038**	1,753,832
Depreciation (note 9)	**458,197**	488,733
Rent expense	**603,309**	373,333
Sharia fees	**363,827**	360,000
Utilities	**298,871**	377,616
Advertisement and business promotion	**299,357**	339,375
Travelling	**242,100**	115,775
Other	**992,977**	1,820,598
	31,104,215	25,241,536

18 Commitments and contingencies

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

	2020 AED	2019 AED
Central Bank of the UAE	**-**	35,000,000

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

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

	2020	2019
Labor guarantees	**163,744,886**	253,923,532
Performance bonds	**132,450,760**	86,782,420
Advance payment guarantees	**108,191,766**	63,648,057
Bid/tender bonds	**62,693,718**	30,114,299
Financial guarantees	**26,364,849**	26,915,769
Letter of credit	**36,084,238**	21,321,873
	529,530,217	482,705,950

19 Risk management

Financial risk management objectives

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

Market risk management

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

Foreign currency risk

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

Profit rate risk

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

The sensitivity of the statement of profit or loss and other comprehensive income is the effect of the assumed changes in profit rates on the Company's profit for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2020.

There is no impact on the Company's equity.

	Increase/decrease in basis points	*Effect on profit (loss) for the year AED*
2020		
AED	**+100**	**-**
AED	**-100**	**-**
2019		
AED	+100	350,000
AED	-100	(350,000)

19 Risk management (continued)

Credit risk management

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

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

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

Liquidity risk management

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

The maturity profile of financial assets and liabilities is monitored by management to ensure adequate liquidity is maintained. The table below summaries the maturity profile of financial assets and liabilities as at 31 December 2020 and 31 December 2019 based on contractual maturities.

2020	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	61,129,597	90,692,585	196,115,141	3,422,144	351,359,467
Deposits and other receivables	5,848,703	14,514,598	438,280	100,403	20,901,984
Cash and cash equivalents	38,028,486	-	-	-	38,028,486
	105,006,786	105,207,183	196,553,421	3,522,547	410,289,937
Financial liabilities					
Depositors' accounts	218,276,639	9,526,947	66,686	-	227,870,272
Trade payables and other liabilities	19,507,162	65,230	4,235	-	19,576,627
	237,783,801	9,592,177	70,921	-	247,446,899

19 Risk management (continued)

Liquidity risk management (continued)

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
Bank balances	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

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 2020 and 2019. Capital comprises share capital, legal reserve and accumulated losses.

20 Capital Adequacy

The Company is licensed and regulated by the Central Bank of UAE. The Company's capital adequacy ratio as at 31 December 2020 is 27.18% (2019: 22.2%) 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.

20 Capital adequacy (continued)

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

	2020 AED	2019 AED
Total Capital Base	**166,011,475**	119,249,118
Total risk-weighted assets	**610,797,407**	537,658,477
Capital Adequacy (Total capital base/total risk-weighted assets)	**27.18%**	22.2%

21 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.

22 Comparative figures

Previous year's figures have been regrouped or reclassified wherever necessary to make them comparable with those of the current year. These regroupings or reclassifications are not material.