

**Amlak Finance PJSC
and its Subsidiaries**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018



Amlak Finance PJSC.

Toll Free: 800 - 26525

Tel : +971 4 427 4500

Fax: +971 4 427 4502

PO Box 2441 Dubai - UAE

www.amlakfinance.com

REPORT OF THE DIRECTORS

The Directors present their report and consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

Amlak Finance PJSC is primarily engaged in Islamic financing and investing activities based on structures such as Ijara, Murabaha, Mudaraba, Wakala and Musharaka. These activities are conducted in accordance with Islamic Sharia'a which prohibits usury, and within the provisions of its Articles and Memorandum of Association.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the attached consolidated financial statements.

Signed on behalf of the Board of Directors


2019
10 March

Dubai, United Arab Emirates



Ernst & Young
P.O. Box 9267
28th Floor, Al Saqr Business Tower
Sheikh Zayed Road
Dubai, United Arab Emirates

Tel: +971 4 332 4000
Fax: +971 4 332 4004
dubai@ae.ey.com
ey.com/mena

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AMLAK FINANCE PJSC

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Amlak Finance PJSC (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated 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 consolidated financial statements* section of our report. We are independent of the Group 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 consolidated 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.

Material uncertainty related to going concern

We draw attention to Note 2.1 to the consolidated financial statements. As stated there in, during the year ended 31 December 2018, the Group has incurred losses amounting AED 272 million. In addition, subsequent to the year end, the Group has issued a notification to all its Commercial Financiers on 22 January 2019 to defer the four monthly principal instalments starting from 25 January 2019 and initiate negotiations to restructure the Common Term Agreement (CTA) signed in 2014 and amended in 2016. As per this CTA, the losses and payment deferral lead to an event of default that, at the discretion of the super majority of 66.7% of the Tranche B Financiers serving a notice to the Group, would require the whole unpaid and outstanding liability to be immediately payable.

As stated in Note 2.1, these events and conditions, along with other matters as set forth in Note 2.1, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not qualified with respect to this matter.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AMLAK FINANCE PJSC (continued)

Report on the audit of the consolidated financial statements (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. In addition to the matter described in the *Material uncertainty related to going concern* section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

(1) Impairment of financing and investing assets

Due to the inherently judgmental nature of the computation of impairment provisions for financing and investing assets, there is a risk that the amount of impairment may be misstated. The impairment of financing and investing assets is estimated by management through the assessment of numerous factors including collection history, value of collateral, status of projects and in consideration of the UAE Central Bank reserve requirements. Due to the significance of financing and investing assets (representing approximately 46% of total assets) and the related estimation uncertainty, this is considered a key audit matter.

The risks outlined above were addressed by us as follows:

For Ijarah customers

- For a sample of customers, we performed a recalculation of the specific provision, reviewed supporting information including validation of the underlying property valuation to the third party valuation reports and considered the aging of the related receivables.
- We reviewed provision trends of the current year with prior years and investigated significant variances.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AMLAK FINANCE PJSC (continued)

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

(1) Impairment of financing and investing assets (continued)

For Forward Ijarah customers

- We reviewed project progress reports for the under construction portfolio provided by management's real estate team and performed site visits on a sample basis to validate the management position on each project's status.
- We reviewed the reasonableness of the provision against on-hold and active projects in the Forward Ijarah portfolio based on the following main criteria established by management based on their experience and market knowledge:
 - Percentage of completion;
 - Developer history; and
 - Project negative equity.

(2) Fair valuation of investment properties

As explained in Note 12 to the consolidated financial statements the investment properties of the Group represent a significant part of the total assets (34% as at 31 December 2018) (2017: 28%) and is carried at fair value of AED 1,989 million. Management determines the fair values of the investment properties on a quarterly basis and has used external third party specialists to determine the valuations as at 31 December 2018. The valuation of an investment property at fair value is highly dependent on estimates and assumptions, such as realisable sales values, rental value, occupancy rate, discount rate, maintenance status, financial stability of tenants, market knowledge and historical transactions. Given the size and complexity of the valuation of investment properties and the importance of the disclosures relating to the assumptions used in the valuation, we assessed this as a key audit matter.

The risks outlined above were addressed by us as follows:

- We reviewed the assumptions and estimates used by management and the external appraisers in the valuation methodology.
- We have considered the objectivity, independence and expertise of the external valuers.
- We have considered the relevance of any ongoing transactions where appropriate.
- We assessed the appropriateness of the disclosures relating to the sensitivity of the assumptions.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AMLAK FINANCE PJSC (continued)

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

(3) Recovery of advances for investment properties

As explained in Note 11 to the consolidated financial statements, the Group has an off plan contract with a developer to acquire commercial property against which handover is delayed by a number of years. The Group has commenced arbitration to facilitate the developer to either perform under the contract or to repay the advances paid. The developer has also commenced a counter arbitration case as explained in note 30 to the consolidated financial statements. Due to the significance of these matters and the difficulty in assessing and quantifying the resulting impact, this is considered to be a key audit matter.

The risks outlined above were addressed by us as follows:

- We reviewed management's assessment of the existence of a valid legal contract between the parties.
- We obtained a confirmation from the Group's external lawyer outlining the facts of the case and interviewed the Group's internal legal counsel.
- We have reviewed the assumptions and estimates used by management and the external appraisers in the valuation of the properties.
- We critically assessed the assumptions made and key judgements applied and considered possible alternative outcomes.
- We assessed whether the disclosures in the financial statements adequately reflect the uncertainties associated with this arbitration with regards recovery of the asset and the potential exposure from the counter arbitration.

(4) Investment deposits and other Islamic Financing

Investment deposits and other Islamic Financing are a key audit matter as they represent approximately 94% of the carrying value of total liabilities of the Group and are subject to compliance with certain key performance indicators and covenants as per the Common Terms Agreement which requires the Group to generate cash flows from the operations to service the fixed obligation and related profits to the depositors. As explained in note 17 to the consolidated financial statements, the nature of the Group's investment deposits significantly changed due to the restructuring which resulted in a fixed obligation to be paid to the Other Commercial Financiers and Liquidity Support Providers over 12 years ending in 2026.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AMLAK FINANCE PJSC (continued)**

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

(4) Investment deposits and other Islamic Financing (continued)

The risks outlined above were addressed by us as follows:

- We circulated confirmations at year end on sample basis to confirm the balances as at 31 December 2018 from the investment depositors.
- We reviewed and recalculated the unwinding of the fair value adjustment on the investment deposits and other Islamic Financing.
- We reviewed the payments and cash sweeps made during the year ended 31 December 2018 and assessed these against the Common Terms Agreement requirements.
- We assessed Group compliance of key performance indicators and covenants with the Common Terms Agreement.
- We assessed management action plan in relation to non-compliance with key performance indicators as per the Common Terms Agreement requirements.
- We reviewed management correspondence with depositors in related to obtaining approval pertaining to non-compliance with the covenants of Common Terms Agreement.
- We evaluated management's future cash flows forecasts, and the process by which they are prepared, and reviewed the underlying assumptions covering several scenarios.
- We read the board minutes and discussed with those charged with governance for update on CTA and any impact on the Group (CTA meetings).
- We reviewed the required disclosures in the consolidated financial statements including Note 2.1 to the consolidated financial statements which was subject to Emphasis of Matter paragraph.

Other information

Management is responsible for the other information. Other information consists of the information included in the Group's 2018 Annual Report, other than the consolidated financial statements and our auditors' report there on. We obtained the report of the Group's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's 2018 Annual Report after the date of our auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and in doing so, consider whether the other information is materially inconsistent with the consolidated 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 respect.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AMLAK FINANCE PJSC (continued)

Report on the audit of the consolidated financial statements (continued)

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated 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 consolidated 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.
- 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AMLAK FINANCE PJSC (continued)

Report on the audit of the consolidated financial statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- 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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AMLAK FINANCE PJSC (continued)**

Report on other legal and regulatory requirements

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

- i) the Group has maintained proper books of account;
- ii) we have obtained all the information we considered necessary for the purposes of our audit;
- iii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Company's Memorandum and Articles of Association and the UAE Federal Law No. (2) of 2015;
- iv) the consolidated financial information included in the Directors' report is consistent with the books of account of the Group;
- v) investments in shares and stocks during the year ended 31 December 2018, if any, are disclosed in note 10 to the consolidated financial statements;
- vi) note 29 reflects material related party transactions and the terms under which they were conducted;
- vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Memorandum and Articles of Association which would have a material impact on its activities or its financial position; and
- viii) note 32 reflects the social contributions made during the year.

Further, as required by the UAE Union Law No. (10) of 1980, we report that we have obtained all the information and explanations we considered necessary for the purposes of our audit.

For Ernst & Young



Signed by:
Thodla Hari Gopal
Partner
Registration number: 689

12 March 2019

Dubai, United Arab Emirates

Amlak Finance PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2018

	<i>Notes</i>	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Income from Islamic financing and investing assets	4	166,783	184,456
Fee income		6,858	6,635
Income on deposits		7,508	6,487
Fair value (loss) / gain on investment properties	12	(34,785)	69,530
Rental income	12	64,447	60,597
Sale of properties under development	13	60,747	52,217
Other income		14,415	26,339
		285,973	406,261
(Impairment) / reversal of impairment on:			
Islamic financing and investing assets	2.5	(40,187)	218
Other assets	15.1	(18,958)	196
Litigation claims	20	(146,781)	628
Amortisation of initial fair value gain on investment deposits	17	(110,082)	(110,013)
Operating expenses	5	(146,208)	(125,089)
Cost of sale of properties under development	13	(5,304)	(21,670)
Share of results of an associate	14	21,275	25,568
(LOSS) / PROFIT BEFORE DISTRIBUTION TO FINANCIERS / INVESTORS		(160,272)	176,099
Distribution to financiers / investors	6	(112,152)	(124,764)
(LOSS) / PROFIT FOR THE YEAR		(272,424)	51,335
Attributable to:			
Equity holders of the parent		(266,257)	42,550
Non-controlling interests	27	(6,167)	8,785
		(272,424)	51,335
(Loss) / profit per share attributable to equity holders of the parent			
Basic (loss) / profit per share (AED)	7	(0.182)	0.027
Diluted (loss) / profit per share (AED)	7	(0.182)	0.013

The attached notes 1 to 32 form part of these consolidated financial statements.

Amlak Finance PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
(Loss) / profit for the year	(272,424)	51,335
Other comprehensive income		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	(676)	11,096
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>		
Losses on remeasuring and disposal of investment securities	(745)	(965)
Change in fair value of investment securities of an associate	(204)	-
Other comprehensive (loss) / income for the year	(1,625)	10,131
Total comprehensive (loss) / income for the year	(274,049)	61,466
Attributable to:		
Equity holders of the parent	(267,882)	52,681
Non-controlling interests	(6,167)	8,785
	(274,049)	61,466

The attached notes 1 to 32 form part of these consolidated financial statements.


Amlak Finance PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 AED'000	2017 AED'000
ASSETS			
Cash and balances with banks	8	255,987	673,015
Islamic financing and investing assets	9	2,703,850	3,084,983
Investment securities	10	7,714	12,387
Advances for investment properties	11	322,818	322,818
Investment properties	12	1,989,071	1,821,064
Properties under development	13	230,845	212,849
Investment in an associate	14	289,005	302,567
Other assets	15	67,317	132,489
Furniture, fixtures and office equipment	16	17,214	17,072
TOTAL ASSETS		5,883,821	6,579,244
LIABILITIES AND EQUITY			
Liabilities			
Investment deposits and other Islamic financing	17	4,218,025	4,792,037
Term Islamic financing	18	111,685	66,136
Employees' end of service benefits	19	4,398	6,551
Other liabilities	20	284,516	143,612
Total liabilities		4,618,624	5,008,336
Equity			
Equity attributable to equity holders of the parent			
Share capital	21	1,500,000	1,500,000
Treasury shares	22	(93,048)	(93,048)
Statutory reserve	23	122,650	122,650
General reserve	24	122,650	122,650
Special reserve	25	99,265	99,265
Mudaraba Instrument	26	215,472	215,472
Mudaraba Instrument reserve	26	810,088	810,088
General impairment reserve	2.5	4,316	-
Cumulative changes in fair value		1,459	698
Foreign currency translation reserve		(324,271)	(323,595)
Accumulated losses		(1,299,719)	(1,011,193)
Non-controlling interests	27	106,335	127,921
Total equity		1,265,197	1,570,908
TOTAL LIABILITIES AND EQUITY		5,883,821	6,579,244

Approved by the Board of Directors on 10 March 2019 and signed on its behalf by:


Chairman


Managing Director &
Chief Executive Officer

The attached notes 1 to 32 form part of these consolidated financial statements.

Amlak Finance PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	<i>Notes</i>	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
OPERATING ACTIVITIES			
(Loss) / profit for the year		(272,424)	51,335
Adjustments for:			
Depreciation	16	5,748	6,317
Share of results of an associate	14	(21,275)	(25,568)
Impairment / (reversal of impairment) on			
Islamic financing and investing assets		40,187	(218)
Other assets		18,958	(196)
Litigation claims	20	146,781	628
Fair value loss / (gain) on investment properties	12	34,785	(69,530)
Amortisation of fair value adjustment on investment deposits	17	110,082	110,013
Distribution to financiers / investors		112,152	124,764
Income on deposits		(7,508)	(6,487)
(Gain) / loss on sale of investment properties		(1,887)	157
Gain realised on sale of investment securities		-	(5,636)
Provision for employees' end of service benefits	19	766	1,091
Operating profit before changes in operating assets and liabilities:		166,365	186,670
Islamic financing and investing assets		(189,609)	261,820
Other assets		42,663	30,057
Other liabilities		(5,876)	7,893
Cash from operations		13,543	486,440
Employees' end of service benefits paid	19	(2,919)	(697)
Net cash generated from operating activities		10,624	485,743
INVESTING ACTIVITIES			
Dividend from an associate	14	16,541	16,541
Proceeds from sale of investment securities		3,926	-
Sale of investment properties		4,988	13,904
Movement in restricted cash flow	8	71,552	41,848
Increase in investment properties		(70,332)	(59,761)
(Increase) / decrease in properties under development		(17,996)	7,830
Proceeds from Wakala deposits		2,280,000	2,000,000
Placement of Wakala deposits		(1,880,000)	(2,200,000)
Purchase of furniture, fixtures and office equipment	16	(3,865)	(1,105)
Income on deposits		7,508	6,487
Net cash generated from / (used) in investing activities		412,322	(174,256)
FINANCING ACTIVITIES			
Receipt of Term Islamic financing		57,984	11,136
Repayment of Term Islamic financing		(12,300)	(7,495)
Investment deposits and other Islamic financing		(796,246)	(121,325)
Payment to non-controlling interests		(15,419)	-
Repayment of Mudaraba instrument	26	-	(100,000)
Directors' fees paid		(2,250)	(2,250)
Net cash used in financing activities		(768,231)	(219,934)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS			
Foreign currency translation reserve		(191)	2,808
Cash and cash equivalents at the beginning of the year		432,562	338,201
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	8	87,086	432,562

The attached notes 1 to 32 form part of these consolidated financial statements.

Amlak Finance PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

Attributable to the equity holders of the parent

	<i>Share capital</i>	<i>Treasury shares</i>	<i>Statutory reserve</i>	<i>General reserve</i>	<i>Special reserve</i>	<i>Mudaraba Instrument</i>	<i>Mudaraba Instrument reserve</i>	<i>General impairment reserve</i>	<i>Cumulative changes in fair value</i>	<i>Foreign currency translation reserve</i>	<i>Accumulated losses</i>	<i>Total</i>	<i>Non controlling interests</i>	<i>Total equity</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
At 1 January 2018	1,500,000	(93,048)	122,650	122,650	99,265	215,472	810,088	-	698	(323,595)	(1,011,193)	1,442,987	127,921	1,570,908
Impact of adopting IFRS 9 (note 2.2)														
- on the Group	-	-	-	-	-	-	-	4,316	-	-	-	4,316	-	4,316
- on an associate	-	-	-	-	-	-	-	-	-	-	(9,725)	(9,725)	-	(9,725)
Restated balance at 1 January 2018	1,500,000	(93,048)	122,650	122,650	99,265	215,472	810,088	4,316	698	(323,595)	(1,020,918)	1,437,578	127,921	1,565,499
Loss for the year	-	-	-	-	-	-	-	-	-	-	(266,257)	(266,257)	(6,167)	(272,424)
Other comprehensive loss for the year	-	-	-	-	-	-	-	-	(745)	(676)	-	(1,421)	-	(1,421)
Other comprehensive loss - share of an associate	-	-	-	-	-	-	-	-	(204)	-	-	(204)	-	(204)
Reclassification of fair value loss on disposal of investment security	-	-	-	-	-	-	-	-	1,710	-	(1,710)	-	-	-
Total comprehensive loss for the year	-	-	-	-	-	-	-	-	761	(676)	(267,967)	(267,882)	(6,167)	(274,049)
Funds paid to project owner *	-	-	-	-	-	-	-	-	-	-	-	-	(15,419)	(15,419)
Provision for zakat – associate (note 14)	-	-	-	-	-	-	-	-	-	-	(8,584)	(8,584)	-	(8,584)
Director's fee paid (note 30)	-	-	-	-	-	-	-	-	-	-	(2,250)	(2,250)	-	(2,250)
At 31 December 2018	1,500,000	(93,048)	122,650	122,650	99,265	215,472	810,088	4,316	1,459	(324,271)	(1,299,719)	1,158,862	106,335	1,265,197

The attached notes 1 to 32 form part of these consolidated financial statements.

Amlak Finance PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2017

Attributable to the equity holders of the parent

	<i>Share capital AED'000</i>	<i>Treasury shares AED'000</i>	<i>Statutory reserve AED'000</i>	<i>General reserve AED'000</i>	<i>Special reserve AED'000</i>	<i>Mudaraba Instrument AED'000</i>	<i>Mudaraba Instrument reserve AED'000</i>	<i>Cumulative changes in fair value AED'000</i>	<i>Foreign currency translation reserve AED'000</i>	<i>Accumulated losses AED'000</i>	<i>Total AED'000</i>	<i>Non- controlling interests AED'000</i>	<i>Total equity AED'000</i>
At 1 January 2017	1,500,000	(93,048)	117,690	117,690	99,265	231,128	868,947	1,663	(334,691)	(1,016,088)	1,492,556	119,136	1,611,692
Profit for the year	-	-	-	-	-	-	-	-	-	42,550	42,550	8,785	51,335
Other comprehensive income for the year	-	-	-	-	-	-	-	(965)	11,096**	-	10,131	-	10,131
Total comprehensive income for the year	-	-	-	-	-	-	-	(965)	11,096	42,550	52,681	8,785	61,466
Transfer to statutory Reserve (note 23)	-	-	4,960	-	-	-	-	-	-	(4,960)	-	-	-
Transfer to general reserve (note 24)	-	-	-	4,960	-	-	-	-	-	(4,960)	-	-	-
Partial payment of Mudaraba Instrument (note 26)	-	-	-	-	-	(15,656)	(58,859)	-	-	(25,485)	(100,000)	-	(100,000)
Directors' fee paid (note 30)	-	-	-	-	-	-	-	-	-	(2,250)	(2,250)	-	(2,250)
At 31 December 2017	1,500,000	(93,048)	122,650	122,650	99,265	215,472	810,088	698	(323,595)	(1,011,193)	1,442,987	127,921	1,570,908

* Funds paid to project owner represent capital redemption to non -controlling interests in the Sky Gardens project.

** This relates to foreign exchange differences on translation of the Group's subsidiaries in Egypt including AED 0.8 million foreign exchange loss (2017: AED 10 million foreign exchange gain) on investment properties (note 12).

The attached notes 1 to 32 form part of these consolidated financial statements.

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

1 ACTIVITIES

Amlak Finance PJSC (the 'Company') was incorporated in Dubai, United Arab Emirates, on 11 November 2000 as a private shareholding company in accordance with UAE Federal Law No (8) of 1984, as amended. At the constituent shareholders meeting held on 9 March 2004, a resolution was passed to convert the Company to a Public Joint Stock Company. The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 28 June 2016, replacing the Federal Law No. 8 of 1984.

The Company is licensed by the UAE Central Bank as a finance company and is primarily engaged in financing and investing activities based on structures such as Ijara, Murabaha, Mudaraba, Wakala and Musharaka. The activities of the Company are conducted in accordance with Islamic Sharia'a, which prohibits usury, and within the provisions of its Articles and Memorandum of Association.

The registered address of the Company is P.O. Box 2441, Dubai, United Arab Emirates.

2 ACCOUNTING POLICIES

2.1 ASSESSMENT OF GOING CONCERN ASSUMPTION

During the year ended 31 December 2018, the Group has incurred losses amounting AED 272 million. In addition, subsequent to the year end, the Group has issued a notification to all its Commercial Financiers on 22 January 2019 to defer the four monthly principal instalments starting from 25 January 2019 and initiate negotiations to restructure the Common Term Agreement (CTA) signed in 2014 and amended in 2016. As per this CTA, the losses and payment deferral lead to an event of default that, at the discretion of the super majority of 66.7% of the Tranche B Financiers serving a notice to the Group, would require the whole unpaid and outstanding liability to be immediately payable.

Although these events may cast a significant doubt regarding the ability of the Group to continue as a going concern, the management and the Board of Directors have developed and proposed new business plans to ensure the going concern of the Group and have prepared the consolidated financial statements on this basis.

Historically, the Group has successfully agreed a new business plan (NBP) with its Financiers in December 2016 whereby a number of restrictive covenants mentioned in the CTA were waived to allow for the Company's mortgage book to be maintained at higher levels without affecting the repayment period, amounts or profit payments to the Financiers. The restructuring and revised terms in 2016 allowed for the resumption of normal business activity that enabled successful repayment of 48% of the Group's total debt over a period of 4 years under a 12-year restructuring plan.

With the passage of time and given the changes in market dynamics and macro-economic factors, the NBP proved to be less viable and detrimental to the long-term prospects of the Group. Consequently, the Group management has approached its Commercial Financiers to renegotiate the funding conditions in order to allow more flexibility in adapting to current market conditions. The renegotiation process to date has entailed a full review and consideration of the Group's assets, operational and structural liquidity position as well as Financiers' position, profit distribution and repayment plan, together with the Group's future financial commitment and obligations.

An overall proposed business plan developed by the Group has been presented to the Monitoring Committee (MoCom). The proposed business plan is currently under review by the MoCom and will be presented to the Financiers, with the expectation that an agreement will be reached by end of April 2019. As a part of the renegotiation, the Group will seek all formal and necessary approvals as per CTA to formally execute this plan.

The management and the Board of Directors are confident that the new proposed business plan will enable the Group to generate positive operating cash flows and allow it to meet its financial obligations as and when they fall due. In addition, regardless of CTA renegotiation outcome and adoption of the new business plan, the Group has sufficient assets to settle its liabilities and meet its financial obligations in the foreseeable future and, at least, for the next 12 months period. Therefore, these consolidated financial statements have been prepared on a going concern basis.

2.2 BASIS OF PREPARATION

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of investment securities, investment properties and advance for investment properties.

The consolidated financial statements have been presented in UAE Dirhams (AED) and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), the Shariah rules and principles as determined by the Fatwa and Sharia'a Supervisory Board of the Company and applicable requirements of United Arab Emirates laws.

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

2 ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements comprise the financial statements of Amlak Finance PJSC and its subsidiaries (the Group) as at 31 December 2018.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

The subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

The principal activities of the subsidiaries are the same as those of the parent company. The extent of the Group's shareholding in the subsidiaries is as follows:

<i>Company</i>	<i>Basis for Consolidation</i>	<i>Country of incorporation</i>	<i>Percentage shareholding</i>	
			<i>2018</i>	<i>2017</i>
Amlak Finance Egypt Company (S.A.E.)	Subsidiary	Egypt	100%	100%
EFS Financial Services LLC	Subsidiary	UAE	57.5%	57.5%
Amlak Sky Gardens LLC (note 27.1)	Subsidiary	UAE	100%	100%
Amlak Holding Limited	Subsidiary	UAE	100%	100%
Warqa Heights LLC	Subsidiary	UAE	100%	100%
Amlak Capital LLC	Subsidiary	UAE	100%	100%
Amlak Property Investment LLC	Subsidiary	UAE	100%	100%
Amlak Limited	Subsidiary	UAE	100%	100%
Amlak Nasr City Real Estate Investment LLC	Subsidiary	Egypt	100%	100%

2 ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

Issued and effective for accounting periods beginning on 1 January 2018

The Group has consistently applied the accounting policies as applied by the Group in the annual consolidated financial statements for the year ended 31 December 2017 including IFRS 15 “Revenue from Contracts with Customers”, which the Group has early adopted in 2015, except the following accounting policies which are applicable from 1 January 2018:

IFRS 9 - Financial Instruments

The Group has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

(i) Classification of financial assets and financial liabilities

Financial assets

Initial recognition

On initial recognition, a financial asset is classified as measured: at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The Group’s financial assets at amortised cost include Islamic financing and investing assets, cash and bank balances with banks and other assets except for prepayments.

Subsequent measurement

Debt instrument

A financial asset (debt instrument) is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Equity instrument

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI, with only dividend income recognized in profit or loss. This election is made on an investment-by-investment basis.

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

Business model assessment:

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

2 ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS (continued)

IFRS 9 - Financial Instruments (continued)

(i) Classification of financial assets and financial liabilities (continued)

Financial assets (continued)

Business model assessment: (continued)

- the stated policies and objectives for the portfolio and the operation of those policies in practice.
- how the performance of the portfolio is evaluated and reported to the Group's management; and
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

Assessment whether contractual cash flows are solely payments of principal and profit:

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Profit' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic financing risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of profit rate.

Reclassifications:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Derecognition:

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVOCI is not recognised in profit or loss account on derecognition of such securities.

Financial Liabilities

Criteria for classification of financial liabilities under IFRS 9 is similar to IAS 39; financial liabilities are classified as financial liabilities at fair value through profit or loss, amortised cost or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Initial recognition

Financial liabilities are initially recognized at fair value and, in case of financial liabilities not recorded at fair value through profit or loss, net of directly attributable transaction costs.

Subsequent measurement

Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortised cost unless the fair value option is applied.

2 ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS (continued)

IFRS 9 - Financial Instruments (continued)

(ii) Impairment

The Group recognises allowance for impairment for expected credit losses (ECL) on financial assets measured at amortised cost and commitments issued.

The Group measures allowance for impairment at an amount equal to lifetime ECL, except for those financial instruments on which credit risk has not increased significantly since their initial recognition, in which case 12-month ECL is measured.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date.

Measurement of ECL:

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

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

Credit-impaired financial assets:

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the customer;
- a breach of contract such as a default or past due event;
- the restructuring of a finance or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the customer will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a collateral because of financial difficulties.

Write-off:

Assets carried at amortised cost and equity securities at FVOCI are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Finances and advances:

'Islamic financing and investing assets' caption in the statement of financial position include:

Finances and advances measured at amortised cost: they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective profit method.

2 ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS (continued)

IFRS 9 - Financial Instruments (continued)

Investment securities:

The 'investment securities' caption in the statement of financial position includes equity investment securities designated as FVOCI.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses on equity instruments recognised in OCI are transferred to retained earnings on disposal of an investment.

(iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore not comparable to the information presented for the year 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation or previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

Further information and details on the changes and implications resulting from the adoption of IFRS 9 are disclosed in succeeding paragraphs.

Except for the financial statement caption listed in the table below there have been no changes in the classification of assets and liabilities on application of IFRS 9 as at 1 January 2018.

	<i>Classification under IAS 39 (31 December 2017)</i>			<i>Classification under IFRS 9 (1 January 2018)</i>		
	<i>Financial assets and receivables AED'000</i>	<i>Available for sale AED'000</i>	<i>Balance AED'000</i>	<i>Amortised cost AED'000</i>	<i>FVOCI AED'000</i>	<i>Balance AED'000</i>
Cash and balances with banks	673,015	-	673,015	673,015	-	673,015
Islamic financing and investing assets	3,084,983	-	3,084,983	3,089,299	-	3,089,299
Investment securities	-	12,387	12,387	-	12,387	12,387
Other assets (excluding prepayment)	125,723	-	125,723	125,723	-	125,723

2 ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS (continued)

(iii) Transition (continued)

The following table reconciles the closing balance of financial assets under IAS 39 to the opening balance of financial assets under IFRS 9 on 1 January 2018.

	<i>31 December 2017</i>	<i>Re-measurement</i>	<i>1 January 2018</i>
	<i>(IAS 39)</i>	<i>impairment</i>	<i>(IFRS 9)</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Cash and balances with banks	673,015	-	673,015
Investment securities:			
Equity securities AFS / FVOCI	12,387	-	12,387
Amortised cost:			
Islamic financing and investing assets	3,084,983	4,316	3,089,299
Other assets excluding prepayments	125,723	-	125,723
Total	3,896,108	4,316	3,900,424

Following the adoption of IFRS 9 by an associate, AED 9,725 thousand, representing the Group share in an associate, was reported by the Group in accumulated losses during the year ended 31 December 2018 which is consistent with the Group accounting policies.

IFRS 7 Financial Instruments

IFRS 7 disclosures were updated to reflect the differences between IFRS 9 and IAS 39, and are adopted by the Group together with IFRS 9, for the period beginning 1 January 2018.

Transfers of investment property – amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are effective for annual periods beginning on or after 1 January 2018.

Changes in estimates and judgements

The preparation of consolidated financial statements requires management to make judgement, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are recognised prospectively.

The Group has consistently applied the estimates and judgements as applied by the Group in the annual consolidated financial statements for the year ended 31 December 2017, except the following estimates and judgements which are applicable from 1 January 2018:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.
- Calculation of expected credit loss (ECL): changes to the assumptions and estimation uncertainties that have a significant impact on ECL for the year ended 31 December 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

2 ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS (continued)

Inputs, assumptions and techniques used for ECL calculation – IFRS9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Group are:

Assessment of Significant Increase in Credit Risk:

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes.

The assessment of significant increases in credit risk will be performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

- (1) The Group has established thresholds for significant increases in credit risk based on movement in probability of default relative to initial recognition.
- (2) Additional qualitative reviews is performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
- (3) IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit impaired as at the reporting date. The determination of credit-impairment under IFRS 9 is similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

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

The measurement of ECL 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 is require significant judgment.

Probability of default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) such as oil price index and GDP, that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in Group's expected credit loss calculation has forecasts of the relevant macroeconomic variables.

The estimation of ECL in Stage1 and Stage 2 is a discounted probability weighted estimate that considers a minimum of three future macroeconomic scenarios.

The base case scenario is based on macroeconomic forecasts published by reliable third parties. Upside and downside scenarios is set relative to Group's base case scenario based on reasonably possible alternative macroeconomic conditions. Scenario design, including the identification of additional downside scenarios will occur on at least an annual basis and more frequently if conditions warrant.

Scenarios are probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights are updated on a quarterly basis (if required). All scenarios considered are applied to all portfolios subject to ECL with the same probabilities.

Sensitivity assessment due to movement in each macroeconomic variable and the respective weights under the three scenarios is periodically assessed by the Group.

In some instances the inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Such cases are subject to the Group's Governance process for oversight.

The management has used the below estimates prior to the implementation of IFRS 9.

2 ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS (continued)

Inputs, assumptions and techniques used for ECL calculation – IFRS9 Methodology (continued)

Impairment losses on financing and investing assets (applicable before 1 January 2018)

The Group reviews its financing and investing assets on a regular basis to assess whether a provision for impairment should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs.

Collective impairment provisions on financing and investing assets (applicable before 1 January 2018)

In addition to specific provisions against individually significant financing and investing assets, the Group also makes a collective impairment provision against such assets. The collective impairment is established with reference to expected loss rates associated with different finance portfolios at different risk levels and the estimated time period for losses that are present but yet to be specifically identified, adjusting for the Group's view of the current and ongoing economic and portfolio trends. The parameters that affect the collective provisioning calculation are updated regularly, based on the Group's experience and that of the market in general.

Definition of default:

The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Governance:

In addition to the existing risk management framework, the Group has established an internal Committee to provide oversight to the IFRS 9 impairment process. The Committee is comprised of senior representatives from Finance, Risk Management and Credit, and is responsible for reviewing and approving key inputs and assumptions used in expected credit loss estimates. It also assesses the appropriateness of the overall allowance results to be included in consolidated financial statements.

2.3 DEFINITIONS

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

Istisna'a

Istisna'a is a sale contract between two parties whereby one party (seller) undertakes to construct, for the other party (buyer), an asset or property according to certain pre-agreed specifications in consideration of a pre-determined price to be delivered during a pre-agreed period of time. The work undertaken is not restricted to be accomplished by the Seller alone, whole or part of the construction can be undertaken by third parties under the seller's control and responsibility. Under an Istisna'a contract the Group may act as the seller or the buyer, as the case may be.

Ijarah (Ijarah Muntahia Bittamleek)

A lease agreement whereby one party (lessor) leases an asset to the other party (lessee), after purchasing/acquiring the asset according to the other party's request against certain rental payments for specified lease term/periods. The duration of the lease, as well as the basis for rental payments, are set and agreed in advance. The lessor retains ownership of the asset throughout the lease term. Ijarah ends by transfer of ownership in the asset to the lessee. Under an Ijarah contract the Group may act as a lessor or a lessee as the case may be.

Forward Ijarah (Ijara Mausoofa Fiz Zimma)

Forward Ijarah is an arrangement whereby the parties' (i.e. lessor and lessee) agree that the lessor shall on a specified future date provide certain described property on lease to the lessee upon its completion and delivery by the developer, from whom the lessor has purchased the property. The lease rental under Forward Ijara commences only upon the lessee having received possession of the property from the Group. Forward Ijarah ends by transfer of ownership in the asset to the lessee. Under a Forward Ijara Group may act as a lessor or a lessee, as the case may be.

Sharikatul Milk

Sharikatul Milk is a financing structure wherein a joint ownership of two or more entities / persons is created in a particular asset or property without common intention to engage in business with respect to such asset or property. The parties share income / revenues from such joint ownership when the Asset or Property is either leased or sold.

2 ACCOUNTING POLICIES (continued)

2.3 DEFINITIONS (continued)

Murabaha

Murabaha is an agreement whereby one party sells (seller) an asset to the other party (purchaser) after purchasing the assets which the seller has purchased based on a promise received from the purchaser to buy the asset purchased according to specific terms and conditions. The selling price comprises the cost of the asset and an agreed profit. Under the Murabaha contract the Group may act either as a seller or a purchaser, as the case may be.

An agreement between two parties whereby one party as a fund provider (Rab Al Mal) would provide funds (Mudaraba Capital), to the other party (Mudarib). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity against an agreed share in the profit. Mudaraba is an investment contract, however the Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba by the Mudarib. Under the Mudaraba contract the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

Sharia'a

Sharia'a is the body of Islamic law and is essentially derived from the Quran and the Sunna'h. The Group, being an Islamic Financial Institution, incorporates the Principles of Sharia'a in its activities, as interpreted by its Fatwa and Sharia'a Supervisory Board.

Wakala Investments

An agency agreement whereby the principal (Muwakkil) provides a certain sum of money (Wakala Capital) to an agent (Wakeel) to invest it in a Sharia'a compliant manner and in accordance with the feasibility study/investment plan submitted to the Muwakkil by the Wakeel. Wakeel for the services is entitled to a fixed fee (Wakala fee) and if the Wakeel achieves a return over and above the amount of expected profit (as stated in the feasibility study/investment plan) Muwakkil may grant such excess to the Wakeel as an incentive for its excellent performance.

However, the Wakeel is obliged to return the invested amount in case of its default, negligence or violation of any of the terms and conditions of the Wakala. The Group may either receive the funds from the investors as their investment agent (Wakeel) or provide the funds for management/investment as Muwakkil.

Mudaraba Instrument

An instrument issued in favour of a facility agent, acting for and on behalf of the financiers (as Agent) in respect of their share in the mortgage portfolio pursuant to which the Agent transferred rights, interests, benefits and entitlements in the mortgage portfolio to Amlak Shaheen Limited (as Issuer). The Company and the Issuer (as Rab Al Maal) entered into Mudaraba whereby the mortgage portfolio as Mudaraba Capital will be invested by the Company.

Any redemption of the Mudaraba Instrument will be through the Group making a payment under a Mudaraba contract to the Issuer.

2.4 SIGNIFICANT MANAGEMENT ESTIMATES AND JUDGMENTS

Use of estimates

The preparation of the financial statements requires management to use its judgment and make estimates and assumptions that may affect the reported amount of financial assets and liabilities, revenues, expenses, disclosure of contingent liabilities and the resultant provisions for impairment and fair values. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

Estimates and judgements related to impairments losses and collective impairment provisioning on financing and investing assets are discussed in note 2.2.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT MANAGEMENT ESTIMATES AND JUDGMENTS (continued)

Use of estimates (continued)

Valuation of unquoted equity investments (continued)

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. The Group calibrates the valuation techniques periodically and tests them for validity using either prices from observable current market transactions in the same instrument or from other available observable market data.

Impairment of associate

When indications exist that the carrying amount of the investment in associates would not be recoverable, an impairment is recognised. The recoverable amount is the higher of value in use and fair value less cost to sell. The fair value less cost to sell is based on the Group's best estimate of the price the Group would achieve in a sale transaction of the investment.

Provisions, contingent liabilities and commitments

Provision are recognised when the Group has a present constructive or legal obligation as a result of past events and it is probable that an outflow of resources, embodying economic benefits, will be required to settle the obligations and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects the market assessments of the time value of money and the increases specific to the liability.

Revaluation of investment properties and advances for investment properties

The Group carries its investment properties and advances for investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss. The Group engaged independent valuation specialists to assess fair value during the year. These are valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Allocation of transaction price to performance obligations in contracts with customers

The Group has elected to apply the input method in allocating the transaction price between respective performance obligations in a contract. In applying the input method the Group uses the fair values of the respective obligations to apportion the transaction value.

The Group has elected to apply the input method in allocating the transaction price to performance obligations where revenue is recognised over time. The Group considers that the use of the input method which requires revenue recognition on the basis of the Group's efforts to the satisfaction of the performance obligation provides the best reference of revenue actually earned. In applying the input method the Group estimates the cost to complete the projects in order to determine the amount of revenue to be recognised. These estimates include the cost of providing infrastructure, potential claims by contractors as evaluated by the project consultant and the cost of meeting other contractual obligations to the customers.

Judgements

Allowances for impairment of Islamic financing and investing assets (applicable before 1 January 2018)

The Group reviews its loans and receivables portfolio and Islamic financing receivables to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the contractual future cash flows from a loan or homogenous group of loans or Islamic financing receivables. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss⁷

In addition to specific allowance against individually significant loans and receivables and Islamic financing receivables, the Group also makes a collective impairment allowance to recognise that at any reporting date, there will

be an amount of loans and receivables and Islamic financing receivables which are impaired even though a specific trigger point for recognition of the loss has not yet been evidenced (known as the "emergence period").

Impairment of available-for-sale investment securities (applicable before 1 January 2018)

The Group determines the impairment of available-for-sale equity securities when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates several market and non-market factors.

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT MANAGEMENT ESTIMATES AND JUDGMENTS (continued)

Judgements (continued)

Impairment of non-financial assets

The Group reviews its non-financial assets to assess impairment, if there is an indication of impairment. In determining whether impairment losses should be reported in the statement of income, the Group makes judgments as to whether there is any observable data indicating that there is a reduction in the carrying value of non-financial assets.

Satisfaction of performance obligations

The Group is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognising revenue. The Group has assessed that based on the sale and purchase agreements entered into with customers and the provisions of relevant laws and regulations, where contracts are entered into to provide real estate assets to customers, the Group does not create an asset with an alternative use to the Group and usually has an enforceable right to payment for performance completed to date. In these circumstances the Group recognises revenue over time. Where this is not the case revenue is recognised at a point in time.

Determination of transaction prices

The Group is required to determine the transaction price in respect of each of its contracts with customers. In making such judgments the Group assesses the impact of any variable consideration in the contract, due to discounts or penalties, the existence of any significant financing component in the contract and any non-cash consideration in the contract.

In determining the impact of variable consideration the Group uses the “most-likely amount” method in IFRS 15 whereby the transaction price is determined by reference to the single most likely amount in a range of possible consideration amounts.

Transfer of control in contracts with customers

In cases where the Group determines that performance obligations are satisfied at a point in time, revenue is recognised when control over the asset that is the subject of the contract is transferred to the customer. In the case of contracts to sell real estate assets this is generally when control of the unit has been handed over to the customer.

2.5 RISK MANAGEMENT

The Group’s financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2017.

Amounts arising from ECL

The following tables show reconciliations from the opening to the closing balance of the allowance for impairment on Islamic Financing and Investing Assets as a result of the adoption of IFRS 9: Financial instruments.

Islamic Financing and investing assets and undrawn irrevocable commitments

	2018 AED’000	2017 AED’000
	ECL	
Balance at 1 January (as per IAS 39)	637,109	675,261
Opening adjustment under IFRS 9*	(4,316)	-
Balance at 1 January (adjusted opening as per IFRS 9)	632,793	675,261
Allowances for impairment made during the year	48,394	6,086
Write back / recoveries made during the year	(8,207)	(6,304)
	40,187	(218)
Amounts written off during the year	(149,089)	-
Exchange and other adjustments	(38,717)	(37,934)
Closing balance	485,174	637,109

*Impact of adopting IFRS 9 is exclusively from general reserve which has been credited to general impairment reserve in the statement of changes in equity as per CBUAE final guidance note on IFRS 9 issued on 30 April 2018.

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2018, with the Group not opting for early adoption. These have, therefore, not been applied in preparing these consolidated financial statements.

Standard	Description	Effective Date
IFRS 16	<p>The IASB issued the new standard for accounting for leases in January 2018.</p> <p>(a) The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets.</p> <p>(b) Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets.</p> <p>(c) Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with finance cost and depreciation expense recognised separately in the statement of profit or loss.</p> <p>Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.</p>	1 January 2019

The Group has assessed the impact of above standard. Based on the assessment, the above standard has no material impact on the consolidated financial statements of the Group as at the reporting date.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements has pricing latitude and is also exposed to credit risks. Revenue is recognised in the income statement as follows:

Ijarah

Ijarah income is recognised on a time-proportion basis over the lease term.

Sharikatul Milk

Sharikatul Milk income is recognised on a time-proportion basis over the lease term or on transferring to the buyer the significant risks and rewards of ownership of the property.

Murabaha

Murabaha deferred profit is accounted for on a time-proportion basis over the period of the contract based on the net Murabaha amounts outstanding.

Mudaraba

Income or losses on Mudaraba financing are accounted for on a time-proportion basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas losses are charged to income on their declaration by the Mudarib.

Musharaka

Income is accounted for on the basis of the net invested Musharaka capital on a time-apportioned basis that reflects the effective yield on the asset.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Processing fees

Processing fees estimated to cover processing costs are recognised when related facilities are approved.

Revenue from contracts with customers

The Group recognises revenue from contracts with customers based on a five step model as set out in IFRS 15:

- Step 1. Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
- Step 2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
- Step 3. Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
- Step 4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
- Step 5. Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

1. The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; or
2. The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
3. The Group's performance does not create an asset with an alternative use to the Group and the entity has an enforceable right to payment for performance completed to date.

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied.

When the Group satisfies a performance obligation by delivering the promised goods or services it creates a contract asset based on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised this gives rise to a contract liability.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

Revenue is recognised in the consolidated income statement to the extent that it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably.

Rental income

Rental income on investment properties is recognised in the profit and loss component of the statement of income on a straight line basis over the term of the lease where the lease is an operating lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease on a straight line basis.

Dividend

Dividend revenue is recognised when the right to receive the dividend is established.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Income on deposits

Income on deposits is accounted for on a time-apportioned basis based on the estimates of management and past history of income on similar deposits.

Allocation of profit

Allocation of profit between the financiers and the shareholders is calculated according to the Group's standard procedures and is approved by the Group's Fatwa and Sharia'a Supervisory Board.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances and short-term deposits with an original maturity of three months or less, net of outstanding bank dues, if any.

Islamic financing and investing assets

Islamic financing and investing assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Islamic financing and investing assets are initially recognised at fair value, which is the cash consideration to originate the Islamic financing and investing assets including any transaction costs, and measured subsequently at amortised cost using the effective profit rate method. Income on Islamic financing and investing assets is included in the statement of income and is reported as income from Islamic financing and investing assets. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the Islamic financing and investing assets, and recognised in the statement of income as an impairment charge.

The Group assesses at the end of each reporting period whether there is objective evidence that Islamic financing and investing assets are impaired. Islamic financing assets are considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or profit;
- National or local economic conditions that correlate with defaults on the assets in the portfolio; and
- Demise of the debtor

The Group first assesses whether objective evidence of impairment exists individually for Islamic financing and investing assets that are individually significant and collectively for Islamic financing and investing assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed Islamic investing and financing asset, it includes it in a group of Islamic financing and investing assets with similar credit risk characteristics and collectively assesses them for impairment. Islamic financing and investing assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purposes of a collective evaluation of impairment, Islamic financing and investing assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's evaluation process that considers category type, past-due status and other relevant factors).

The impairment charge on a group of Islamic financing and investing assets is collectively evaluated for impairment and estimated on the basis of historical trends of the probability of default, timing of recoveries and amount of loss incurred. Default rates, loss rates and expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate. Where historical data is not sufficient to assess trends, market loss experience is substituted using a lagged approach whereby loss rates are based on movement of accounts from one stage of delinquency to another.

The amount of the loss is measured as the difference between the carrying amount of the Islamic financing and investing assets and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective profit rate of the Islamic financing and investing assets. The carrying amount of the Islamic financing and investing asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a Islamic financing and investing asset has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Islamic financing and investing assets (continued)

When an Islamic financing and investing asset is uncollectible, it is written off against the related impairment allowance. If no related impairment allowance exists, it is written off to the statement of comprehensive income. Subsequent recoveries, if any, are credited to the statement of income. If the amount of impairment subsequently decreases due to an event occurring after the write down, the release of the allowance is credited to the statement of income.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the date of the statement of financial position. Fair values in the consolidated financial statements are determined based on valuations performed by an accredited external, independent valuer. Gains or losses arising from changes in the fair values of investment properties are included in the statement of income in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the assets is recognised in the statement of income in the period of derecognition.

Fair value is determined by reference to open market values based on valuations performed by independent surveyors and consultants. For advances for investment properties, valuations are adjusted for amounts to be paid in accordance with property purchase agreements.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property or property under development, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property or property under development becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment or property under development up to the date of change in use.

Properties under development

Properties in the course of construction for sale are classified as properties under development. Sold and unsold properties under development are stated at cost less any impairment. Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the property, which are capitalised as and when activities that are necessary to get the property ready for the intended use are in progress.

Where revenue is recognised over the duration of a contract, the associated share of costs within properties under development are released to cost of sales in the income statement.

Completion is defined as the earlier of issuance of a certificate of practical completion, or when management considers the project to be completed. Upon completion, cost in respect of properties with the intention to sell or capital appreciation / rentals are eliminated from properties under construction and transferred to properties held for sale at cost.

Investment securities

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

At fair value through profit or loss

These are initially recognised at fair value. Gains and losses arising from changes in fair values are included in the statement of income for the year. Dividends received are included in other income according to the terms of the contract or when the right to the payment has been established.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment securities (continued)

At fair value through other comprehensive income

After initial recognition, investments classified as “fair value through OCI,” are remeasured at fair value. Unrealised gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. Cumulative gains and losses on equity instruments recognized in OCI are transferred to retained earnings on disposal of an investment.

Investment in associates and joint operations

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group has an interest in a joint operation and recognises in relation to its interest in the joint operation its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation;
- Share of the revenue from the sale of the output by the joint operation; and
- Expenses, including its share of any expenses incurred jointly.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group’s investments in its associate are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group’s share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of income reflects the Group’s share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group’s other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group’s share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

Furniture, fixtures and office equipment

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

Furniture and fixtures	4 - 7 years
Computer and office equipment	3 - 5 years

Capital work in progress is stated at cost and is transferred to the appropriate asset category when it is brought into use and is depreciated in accordance with Group’s accounting policies.

The carrying values 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 values exceed the estimated recoverable amount, the assets are written down to their recoverable amount,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

being the higher of their fair value less costs to sell and their value in use.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Furniture, fixtures and office equipment (continued)

Expenditure incurred to replace furniture, fixtures and office equipment 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 equipment. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

Zakat

Zakat is computed as per the Group's Articles and Memorandum of Association on the following basis:

- Zakat on shareholders' equity is computed on their Zakat pool (shareholders' equity less paid up capital, plus employees' end of service benefits) and is deducted from retained earnings.
- Zakat on the paid up capital is not included in the Zakat computation and is payable by the shareholders personally.
- Zakat is disbursed by a committee appointed by the Board of Directors and operating as per the by-laws set by the Board.

Accounts payable and accruals

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

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the obligation amount can be made.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of income on a straight-line basis over the lease term.

Employees' end of service benefits

With respect to its national employees in the UAE, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are recognised in the statement of income when due.

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' 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.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium.

Trade and settlement date accounting

All "regular way" purchases and sale of financial assets are recognised on the "trade date", i.e. the date that the Group purchases or sells the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement

a) Financial assets

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial recognition and measurement

Financial assets are classified as financial assets at fair value or at amortized cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described in two categories:

- Financial assets at fair value (FVTPL or FVOCI)
- At amortised cost

Financial assets at fair value

Where financial asset is measured at fair value, gains and losses are either recognized entirely in profit or loss (fair value through profit or loss, FVTPL), or other recognized in (fair value through other comprehensive income, FVOCI)

The Group has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented in the statement of income.

Amortised Cost

Financing and receivables including advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective profit rate (EPR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EPR. The EPR amortisation is included in finance income in the consolidated statement of income. The losses arising from impairment are recognised in the statement of income.

Fair value through other comprehensive income (FVOCI)

FVOCI investments include equity investments and debt securities.

All equity investments in scope of IFRS 9 are measured at fair value in statement of financial position, with value changes recognized in profit or loss, except for those equity investments for which the Group has elected to present value changes in other comprehensive income. There is no cost exception for unquoted securities.

If an equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it at FVOCI with only dividend income recognized in statement of income.

The Group evaluates whether the ability and intention to sell its investment securities financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

a) Financial assets (continued)

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group’s continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment and uncollectibility of financial assets

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

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of income;
- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

b) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities at fair value through profit or loss, amortized cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of financial liabilities not recorded at fair value through profit or loss, net of directly attributable transaction costs.

The Group’s financial liabilities include trade and other payables, bank overdrafts, financing including bank overdrafts, financial guarantee contracts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities held for trading are measured at FVTPL and all other financial liabilities are recorded at amortized cost.

The Group classifies financial liabilities as held for trading when they have issued primarily for short term profit making through trading activities or form part of a portfolio of financial instruments that are managed together for which there is evidence of a recent pattern of short-term profit taking. Gains and losses arising from changes in fair values are included in the consolidated income statement in the year in which they arise.

Gains or losses on liabilities held for trading are recognised in the consolidated statement of income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group’s financial liabilities at fair value through profit or loss are comprised of its finance rate derivative bifurcated from its term finance agreement.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

b) Financial liabilities (continued)

Financing

After initial recognition, any financing obtained is subsequently measured at amortised cost using the EPR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EPR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EPR. The EPR amortisation is included as finance costs in the consolidated statement of income.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Fair value measurement

The Group measures financial instruments and non-financial assets at fair value at each reporting date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

1. In the principal market for the asset or liability, or
2. In the absence of a principal market, in the most advantageous market for the asset or liability

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's management determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted AFS financial assets.

External valuers are involved for valuation of significant assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

Management, in conjunction with the Group's external valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Group intends to settle on a net basis.

Foreign currencies

Transactions in foreign currencies are initially recorded by the Group at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

All the assets and liabilities of foreign subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the reporting date and their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

4 INCOME FROM ISLAMIC FINANCING AND INVESTING ASSETS

	<i>2018</i>	<i>2017</i>
	<i>AED'000</i>	<i>AED'000</i>
<i>Financing assets:</i>		
Ijarah	144,478	156,610
Forward Ijarah	6,166	3,468
Shirkatul Milk	11,751	10,753
Others	233	555
	162,628	171,386
<i>Investing assets:</i>		
Wakala	4,155	13,070
	166,783	184,456

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

5 OPERATING EXPENSES

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Personnel	46,293	45,736
Legal consultancy and professional	34,083	18,508
Business process	14,658	15,232
Property management (note 12)	22,122	21,133
Rent	4,458	4,135
IT related expense	3,190	3,133
Depreciation	5,748	6,317
Others	14,918	8,293
	145,470	122,487
Share of operating expenses from Al Warqa Gardens LLC (note13)	738	2,602
	146,208	125,089

6 DISTRIBUTION TO FINANCIERS / INVESTORS

The distribution of profit between the financiers and shareholders has been made in accordance with a basis ratified by the Fatwa and Sharia'a Supervisory Board and in accordance with the agreements with the respective financiers.

7 BASIC AND DILUTED (LOSS) / PROFIT PER SHARE

(Loss) / profit per share is calculated by dividing (loss) / profit attributable to the equity holders of the parent for the year net of directors' fees and zakat, by weighted average number of shares outstanding during the year.

Diluted (loss) / profit per share is calculated by dividing the (loss) / profit attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares:

	<i>2018</i>	<i>2017</i>
(Loss) / profit for the year attributable to equity holders of the parent net of Directors' fee and zakat (AED'000)	(268,507)	40,300
Weighted average number of shares for basic EPS (in thousands)	1,475,000	1,475,000
Effect of dilution:		
Mudaraba Instrument (in thousands)	1,511,857	1,633,132
Weighted average number of ordinary shares adjusted for the effect of dilution	2,986,857	3,108,132
Attributable to equity holders of the parent:		
Basic (loss) / profit per share (AED)	(0.182)	0.027
Diluted (loss) / profit per share (AED)	(0.182)	0.013

The weighted average numbers of shares for basic EPS were reduced by the purchase of own shares during the year 2008 (note 22).

Diluted loss per share for the year 2018 has been reported same as basic loss per share in these consolidated financial statements, as the impact of potential ordinary shares is anti-dilutive.

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

8 CASH AND BALANCES WITH BANKS

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Cash on hand	59	59
Balances with banks	92,755	435,839
Deposits with banks	163,173	237,117
Cash and balances with banks	<u>255,987</u>	<u>673,015</u>
Less: Restricted cash and deposits		
Regulatory deposit with no maturity (note 8.1)	(35,000)	(35,000)
Restricted cash (note 8.2)	(133,901)	(205,453)
Cash and cash equivalents	<u><u>87,086</u></u>	<u><u>432,562</u></u>

8.1 Represents deposits with a local bank under lien to the Central Bank of UAE in accordance with Central Bank regulations for licensing.

8.2 At year end, the Group reported AED 134 million (31 December 2017: AED 205 million) of restricted cash. This represents the Group's share of the cash held and controlled by a joint venture (note 13).

8.3 The company and certain of its subsidiaries registered in UAE have pledged their bank accounts in favour of the security agent (note 17).

9 ISLAMIC FINANCING AND INVESTING ASSETS

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
<i>Financing assets:</i>		
Ijarah	2,432,347	2,554,822
Forward Ijarah	312,659	319,480
Shirkatul Milk	168,411	55,852
Real estate Murabaha	1,107	1,398
Others	74,500	190,540
	<u>2,989,024</u>	<u>3,122,092</u>
Allowance for impairment (note 9.1)	(485,174)	(637,109)
Total financing assets	<u>2,503,850</u>	<u>2,484,983</u>
<i>Investing assets:</i>		
Wakala	200,000	600,000
Total investing assets	<u>200,000</u>	<u>600,000</u>
	<u><u>2,703,850</u></u>	<u><u>3,084,983</u></u>

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

9 ISLAMIC FINANCING AND INVESTING ASSETS (continued)

Net Islamic financing and investing assets by geographical area are as follows:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Within U.A.E.	2,613,790	3,036,581
Outside U.A.E.	90,060	48,402
	<u>2,703,850</u>	<u>3,084,983</u>

The movement in the allowance for impairment is as follows:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
At 1 January	637,109	675,261
Movement during the year - net	(151,935)	(38,152)
At 31 December	<u>485,174</u>	<u>637,109</u>

9.1 Allowance for impairment includes AED 78 million (2017: AED 110 million) in respect of profit in suspense for impaired financing and investing assets.

9.2 As stated in note 2.3, the allowance for impairment is management's best estimate and is based on assumptions considering several factors as per IFRS 9.

10 INVESTMENT SECURITIES

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Equities (FVOCI)	<u>7,714</u>	<u>12,387</u>

31 December 2018

	<i>Total</i> <i>AED'000</i>	<i>Investments carried at fair value</i>		
		<i>Level 1</i> <i>AED'000</i>	<i>Level 2</i> <i>AED'000</i>	<i>Level 3</i> <i>AED'000</i>
Equities (FVOCI)	<u>7,714</u>	<u>-</u>	<u>-</u>	<u>7,714</u>

31 December 2017

	<i>Total</i> <i>AED'000</i>	<i>Investments carried at fair value</i>		
		<i>Level 1</i> <i>AED'000</i>	<i>Level 2</i> <i>AED'000</i>	<i>Level 3</i> <i>AED'000</i>
Equities (AFS)	<u>12,387</u>	<u>4,670</u>	<u>-</u>	<u>7,717</u>

There were no transfers of securities between the Level 1 and Level 2 categories of the fair value hierarchy in the current and prior year.

The following shows reconciliation from the opening balances to the closing balances for level 3 fair values:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Balance at 1 January	7,717	7,688
Exchange movement	(3)	29
Balance at 31 December	<u>7,714</u>	<u>7,717</u>

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

11 ADVANCES FOR INVESTMENT PROPERTIES

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Advances for investment properties	322,818	322,818
At 31 December	322,818	322,818

This represents the advances paid by the Group towards the acquisition of units in two under-development real estate projects in Dubai. Both projects are delayed by a number of years and the date of completion is uncertain. The Group commenced arbitration in 2013 with one developer to facilitate recovery of advances paid of AED 780 million with a carrying value of AED 293 million (31 December 2017: AED 293 million).

Advances for investment properties include AED 30 million under Istisna with a financial institution carried at cost as there is significant uncertainty over whether the project will be completed by the developer. The associated liability of AED 39 million (31 December 2017: AED 39 million) is also recorded in the financial statements. Under the terms of the Istisna, the Group has no obligation to repay the Istisna finance of the asset until construction is completed. The Group has not yet obtained title to the properties and is committed to pay an additional AED 23 million (31 December 2017: AED 23 million) in accordance with the agreement with the seller of one of the real estate projects.

12 INVESTMENT PROPERTIES

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
At 1 January	1,821,064	1,623,096
Additions during the year	224,155	143,109
Disposal during the year	(20,533)	(24,282)
Fair value (loss) / gain on investment properties	(34,785)	69,530
Foreign exchange fluctuation	(830)	9,611
At 31 December	1,989,071	1,821,064

Investment properties consist of land, villas and units in buildings held for lease or sale. In accordance with its accounting policy, the Group carries investment properties at fair value.

The fair values of the properties are based on valuations performed at year end by independent professionally qualified valuers who hold a recognised relevant professional qualification and have relevant experience in the locations and segments of the investment properties valued. The valuation model used is in accordance with that recommended by the Royal Institute of Chartered Surveyors. During the year, the management has used the lower range of the fair values for all investment properties where more than one fair valuer has been used.

Investment properties as at 31 December 2018 include a plot of land and three (31 December 2017: two) units in Egypt owned by the Group's subsidiaries amounting to AED 176 million (2017: AED 169 million). All other investment properties are located within the UAE. The carrying values of AED 176 million (2017: 169 million) also include foreign exchange gain and loss on currency translation of investment properties in Egypt which is included in equity.

Investment properties are categorised in Level 2 for fair value measurement as they have been derived using the comparable price approach based on comparable transactions for similar properties. Sales prices of comparable properties in close proximity are adjusted for differences in the key attributes such as property size and location. The most significant input into this valuation approach is the estimated price per square foot for each given location. There were no transfers into or out of the Level 2 category during the year.

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

12 INVESTMENT PROPERTIES (continued)

Significant increases / (decreases) in comparable market value in isolation would result in a significantly higher / (lower) fair value of the properties.

As at 31 December 2018, investment properties having fair value of AED 1,064 million (31 December 2017: AED 985 million) are mortgaged / assigned in favour of the security agent as part of the restructuring (note 17).

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Rental income derived from investment properties	64,447	60,597
Direct operating expenses (including repairs and maintenance) generating rental income	(22,122)	(21,133)
Profit arising from rental on investment properties carried at fair value	42,325	39,464

13 PROPERTIES UNDER DEVELOPMENT

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
At 1 January	212,849	220,679
Cost of sale of properties under development	(5,304)	(21,670)
Additions for construction costs incurred	23,300	13,840
At 31 December	230,845	212,849

On 1 October 2014, the Group entered into a joint venture agreement with another party to develop a jointly owned plot of land in Nad Al Hammar. Amlak Finance PJSC acquired a 50% interest in Al Warqa Gardens LLC, a jointly controlled entity to develop a jointly owned plot of land in Nad Al Hammar. The Group has a 50% share in the assets, liabilities, revenue and expenses of the joint venture and accordingly under IFRS 11 it is deemed to be a jointly controlled operation. As the land is under development with a view to disposal in the market, it has been treated as property under development with an initial cost equal to its fair value at the time of transfer from investment property portfolio for AED 330 million. Subsequent expenditure to develop the land for resale is included in the cost of the property. The cash held by the joint venture is restricted, given that it is contractually committed to the development of the land under the joint venture agreement. The Group's share of this restricted cash balance at 31 December 2018 is AED 134 million (31 December 2017: AED 205 million).

The joint venture has entered into agreements to sell a number of sub-divided plots of the Nad Al Hammar land. Applying the requirements of IFRS 15, the joint venture has identified two performance obligations within these agreements being to transfer control of land and to provide infrastructure to the plots.

The revenue assigned to the sale of land is recorded at the time of transfer of the control of the land and the revenue relating to the building of infrastructure is recorded over the period of construction of the infrastructure on the basis that the joint venture has an enforceable right to payment for performance completed to date. The contracted revenue has been allocated between the two separate obligations on the basis of their respective fair values.

As at 31 December 2018, properties under development are assigned as security in favour of the security agent as part of the restructuring (note 17).

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

13 PROPERTIES UNDER DEVELOPMENT (continued)

The following items represent the Group's interest in the assets, liabilities, revenue and expenses of the joint operation after elimination of intercompany transactions:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Properties under development	230,845	212,849
Cash and balances with banks	133,901	205,453
Other assets - receivables	8,346	851
Deferred income and other liabilities	(4,781)	(10,356)
Net Assets	368,311	408,797
Revenue	60,747	52,217
Income on deposits	5,617	5,217
Cost of sale of properties under development	(5,304)	(21,670)
Operating expenses	(738)	(2,602)
Profit for the year	60,322	33,162

Revenue for the year comprises AED 46 million (2017: AED 25 million) following satisfaction of transfer of control of land performance obligations and AED 15 million (2017: AED 27 million) following the infrastructure development has been 100% completed by the contractor and all major contingencies were waived during the year ended 31 December 2018. Receivable amounts due under the respective sale agreements on which land transfer revenue has been recognised are due for settlement to the joint venture within 12 months of the reporting date.

14 INVESTMENT IN AN ASSOCIATE

	<i>Percentage holding</i>		<i>2018</i>	<i>2017</i>
	<i>2018</i>	<i>2017</i>	<i>AED '000</i>	<i>AED'000</i>
Amlak International for Real Estate Finance Company, Saudi Arabia (AIRE)	26.21%	26.39%	289,005	302,567

The following table illustrates summarised financial information of the Group's investment in AIRE:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Assets	3,143,757	3,213,105
Liabilities	(2,049,160)	(2,083,674)
Equity	1,094,597	1,129,431
Group's carrying amount of the investment (extrapolated)	289,005	302,567
Revenue (extrapolated)	256,347	263,782
Profit for the year (extrapolated)	94,287	102,530
Group's share of profit for the year (extrapolated)	21,275	25,568

During the year, the Group received dividend of AED 16.5 million (2017: AED 16.5 million) from AIRE. Financial information and results of AIRE are based on the latest available management accounts as at 30 November 2018 (2017: as at 31 October 2017) and extrapolated for the remaining 1 month (2017: two months) to 31 December 2018.

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

14 INVESTMENT IN AN ASSOCIATE (continued)

Based on the recent ongoing discussion with regulators, the AIRE has recorded AED 32.8 million (SR 33.5 million) as its best estimate of additional zakat liability. Additional claim of Zakat and income tax assessment issued by the General Authority of Zakat and Income Tax ("GAZT") amounting to AED 230 million (SR 235 million) in response to declarations submitted by AIRE pertaining to 2007 to 2012 was transferred to the Higher Appeal Committee, and the assessments for 2013-2016 are still under review at the GAZT. The AIRE believes it is unlikely that the above position of GAZT will be upheld, because of the issue of deduction of net investment in finance leases has industry wide implications for leasing, mortgage finance business and any other finance related business where the main assets are receivables. Accordingly, the Group has recorded its share of AED 8.584 million in its equity.

15 OTHER ASSETS

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Prepayments	3,762	6,766
Receivable from brokerage activities (note 15.1)	6,000	24,369
Land registration and service fees	20,322	5,840
Advances	2,015	8,260
Profit receivable	363	3,910
Due from related parties (note 29)	703	703
Foreclosed accounts receivables (note 15.2)	20,064	78,807
Others (note 15.3)	14,088	3,834
	67,317	132,489

15.1 This balance is stated net of provision for doubtful debt and is past due by more than 12 months on the reporting date. Management is confident of a full recovery of the net balance. During the year Group has provided a provision of AED 18 million in relation to receivable from one of its customers.

15.2 This represents the fair values of the foreclosed units in relation to settlement of financing assets wherein units transferred to investment properties in subsequent period post completion of ownership transfer formalities with Dubai Land Department.

15.3 Balance includes AED 8.3 million (31 December 2017: AED 1 million) pertaining to receivables of Al Warqa Gardens LLC (note 13).

16 FURNITURE, FIXTURES AND OFFICE EQUIPMENT

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Furniture, fixtures and office equipment (note 16.1)	16,742	14,804
Capital work in progress (note 16.2)	472	2,268
	17,214	17,072

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

16 FURNITURE, FIXTURES AND OFFICE EQUIPMENT (continued)

16.1 Furniture, fixtures and office equipment are as follows:

2018:

	<i>Furniture and fixtures AED'000</i>	<i>Computers and office equipment AED'000</i>	<i>Total AED'000</i>
Cost:			
At 1 January 2018	15,855	53,096	68,951
Additions during the year	169	5,491	5,660
Disposals during the year	(2)	(110)	(112)
Prior year adjustment	-	8,446	8,446
At 31 December 2018	16,022	66,923	82,945
Accumulated depreciation:			
At 1 January 2018	14,303	39,844	54,147
Depreciation charge for the year	319	5,429	5,748
Disposals during the year	(1)	(106)	(107)
Prior year adjustment	-	6,415	6,415
At 31 December 2018	14,621	51,582	66,203
Net book value:			
At 31 December 2018	1,401	15,341	16,742

2017:

	<i>Furniture and fixtures AED'000</i>	<i>Computers and office equipment AED'000</i>	<i>Total AED'000</i>
Cost:			
At 1 January 2017	15,975	49,086	65,061
Additions during the year	17	4,010	4,027
Disposals during the year	(137)	-	(137)
At 31 December 2017	15,855	53,096	68,951
Accumulated depreciation:			
At 1 January 2017	14,008	33,828	47,836
Depreciation charge for the year	301	6,016	6,317
Disposals during the year	(6)	-	(6)
At 31 December 2017	14,303	39,844	54,147
Net book value:			
At 31 December 2017	1,552	13,252	14,804

16.2 The amount relates to ongoing IT projects.

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

17 INVESTMENT DEPOSITS AND OTHER ISLAMIC FINANCING

	<i>Frequency of instalments</i>	<i>Final instalment date</i>	<i>Profit rate</i>	2018 AED'000	2017 AED'000
Murabaha	Monthly	25 October 2026	2%	207,228	229,296
Wakala	Monthly	4 July 2020	4%	128,375	199,695
Others	Monthly	4 July 2020	4%	294,250	457,722
Purchase price payable	Monthly	25 October 2026	2%	4,011,781	4,439,015
				4,641,634	5,325,728
Unamortised fair value adjustment (note 17.1)				(423,609)	(533,691)
				4,218,025	4,792,037

Investment deposits and other Islamic financing are secured against assignment and mortgage over the Group's investment properties located in UAE (notes 12 and 13), assignment of insurance, pledge over bank accounts (note 8), assignment of rights to receive payments in connection with the Islamic financing and investing assets portfolio and corporate guarantees of the Group's subsidiaries. Securities offered would be held by a security agent on behalf of financiers.

17.1 Amortised fair value adjustment

	2018 AED'000	2017 AED'000
At 1 January	533,691	643,704
Amortisation charged for the year	(110,082)	(110,013)
	423,609	533,691

The nature of the Company's deposits was significantly changed due to the restructuring undertaken in 2014, resulting in a fixed obligation to be paid to the Commercial Financiers and Liquidity Support Providers. The face value of the restructured fixed obligations at year end is AED 4,642 million (31 December 2017: 5,326 million). In accordance with IFRS, due to the substantial changes in the terms of the investment deposits through the restructuring, a fair valuation assessment of the restructured obligations was performed based on the net present value of the contracted cash flows. As at 25 November 2014, the restructured obligations were initially recognised at fair value in the statement of financial position giving rise to AED 911 million of fair value gain which was recorded in the consolidated statement of income.

The fair value adjustment was calculated using a discount rate of 5% based on management's market yield expectation adjusted for risks specific to the Group.

The obligations are subsequently to be measured at amortised cost using the effective finance rate method. Consequently, the gain on initial recognition recorded will fully reverse out over the repayment period of 12 years, with a resulting charge to the consolidated statement of income each year. The cumulative value of fair value gain amortised as at 31 December 2018 was AED 487 million (31 December 2017: AED 377 million) giving a residual fair value gain of AED 424 million as at 31 December 2018 (31 December 2017: AED 534 million) to be amortised over the remaining repayment period.

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

17 INVESTMENT DEPOSITS AND OTHER ISLAMIC FINANCING (continued)

17.1 Amortised fair value adjustment (continued)

Under the terms of the Common Terms Agreement of 2014 restructuring, the Group is required to distribute any cash surplus with the definition of surplus being defined in the terms of the agreement, as subsequently modified in December 2016, based on an assessment of the cash position of the Group every 6 months. The first of such assessments was performed in December 2014 and gave rise to a repayment of obligation to financiers of AED 944 million representing an advance payment of 22 future monthly scheduled installments.

Under the cash sweep mechanism the second assessment was performed based on the cash position as at 30 June 2015 and consequently an advance payment of AED 558 million representing 13 future scheduled monthly installments till October 2018 was paid on 16 July 2015.

The third assessment was performed based on the cash position as at 31 December 2015 and consequently an advance payment of AED 137 million representing 2 future scheduled monthly installments till December 2018 was paid on 25 January 2017. The fourth assessment was performed based on the cash position as at 30 June 2017 and consequently an advance payment of AED 137 million representing 2 future scheduled monthly installments till February 2018 was paid on 25 July 2017.

In December 2016, Amlak agreed with its financiers to waive a number of restrictive covenants, which included adjustments to certain restrictions to allow for the company's mortgage book to be maintained at higher anticipated levels, funds to be raised under certain pre-agreed parameters, and restrictions on business origination to be removed. The new terms do not affect the repayment period or amounts or profit payments to financiers.

An advance payment of AED 684 million representing 10 future scheduled monthly installments till December 2018 was paid on 25 January 2018.

Please refer to note 2.1 for events subsequent to year end.

18 TERM ISLAMIC FINANCING

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Istisna – Forward Ijarah financing by subsidiary (note A)	38,559	38,559
Egyptian Mortgage Refinance Company (note B)	56,012	27,577
Egyptian Arab Land Bank (note C)	17,114	-
	111,685	66,136

A) Istisna– Forward Ijarah financing by subsidiary

During 2008, the Group entered into an Istisna – Forward Ijarah arrangement with an Islamic bank to finance the purchase of office condominium units in a property which is currently being constructed. The total amount under the facility is AED 53 million (31 December 2017: AED 53 million) of which total payments made towards the construction cost by the Islamic bank as of 31 December 2018 are AED 30 million (31 December 2017: AED 30 million) (see note 11).

B) Egyptian Mortgage Refinance Company (EMRC)

As at the year end, EMRC long term facilities to the Group's subsidiary in Egypt amounted to Egyptian Pounds 274 million (31 December 2017: Egyptian Pounds 134 million) to finance the subsidiary's activities. These facilities carry a profit rate range from 1% per annum to 21% per annum (2017: 11.5% per annum to 21% per annum) payable on a monthly basis over a maximum period of 20 years.

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

18 TERM ISLAMIC FINANCING (continued)

C) Egyptian Arab Land Bank (EALB)

As at the year end, EALB long term facilities to the Group's subsidiary in Egypt amounted to Egyptian Pounds 84 million (31 December 2017: Nil) to finance the subsidiary's activities. These facilities carry a maximum profit rate range of 1.5% per annum to average corridor rate from Central Bank of Egypt (2017: Nil) payable on a monthly basis over a maximum period of 7 years.

19 EMPLOYEES' END OF SERVICE BENEFITS

	2018 AED'000	2017 AED'000
At 1 January	6,551	6,157
Provided during the year	766	1,091
Paid during the year	(2,919)	(697)
At 31 December	<u>4,398</u>	<u>6,551</u>

20 OTHER LIABILITIES

	2018 AED'000	2017 AED'000
Provisions and accruals	65,823	51,702
Unearned rental income	5,556	11,055
Dividend payable	6,563	6,578
Anticipated profits payable on investment deposits and other Islamic financing	2,988	3,912
Provision for litigation claims (note 20.1)	161,256	14,475
Brokerage payable	2,344	2,344
Zakat payable	56	456
Security deposits	8,942	6,535
Property management payables	4,683	7,156
Other payables (note 20.2)	26,305	39,399
	<u>284,516</u>	<u>143,612</u>

20.1 This represents:

- i. provision of AED 14 million (31 December 2017: AED 14 million) against certain litigation proceedings in the United Arab Emirates, involving claims by and against it, mainly in respect of certain sale and financing transactions. During the year, the Company provided for AED Nil (31 December 2017: reversal of AED 628) related to litigation proceedings.
- ii. provision for expected losses provided by the Group for the year AED 147 million (31 December 2017: AED Nil) pertaining to a litigation proceeding related to advances paid by the Group to a developer (note 11) as recommended by the Central Bank and ratified by the Board of Directors.

20.2 This includes AED 5 million (31 December 2017: AED 10 million) pertaining to deferred income and other liabilities of Al Warqa Gardens LLC (note 13).

21 SHARE CAPITAL

	2018 AED'000	2017 AED'000
<i>Authorised, Issued and fully paid</i>		
1,500,000,000 shares of AED 1 each (31 December 2017: 1,500,000,000 ordinary shares of AED 1 each)	<u>1,500,000</u>	<u>1,500,000</u>

Mudaraba Instrument

The Group has issued a Mudaraba Instrument which is convertible to ordinary shares (note 26) on completion of certain conditions. At the time of issuance of the Mudaraba Instrument, the shareholders passed resolutions in the extraordinary general assembly meeting on 28 September 2014 to increase the share capital of the Company by upto AED 2.1 billion from time to time in such amount or amounts as may be required.

22 TREASURY SHARES

During 2008, the Group purchased 25 million of its shares, equivalent to 1.67% of the issued shares. These shares are recorded in the statement of financial position as treasury shares.

23 STATUTORY RESERVE

As required by the UAE Federal Law No. (2) of 2015 and the Company's Articles of Association, 10% of the Company's profit for the year is to be transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. During the year, the Company transferred AED Nil (31 December 2017: AED 4,960 thousand) to statutory reserves.

24 GENERAL RESERVE

As required by the Company's Articles of Association, 10% of the profit for the year is to be transferred to general reserve. As per the Articles of Association, deductions for the general reserve shall stop by resolution of an Ordinary General Assembly upon the recommendation of the Board of Directors or when this reserve reaches 50% of the paid up capital of the Company. This reserve shall be utilised for the purpose determined by the General Assembly at an ordinary meeting upon the recommendation of the Board of Directors. During the year, the Company transferred AED Nil (31 December 2017: AED 4,960 thousand) to general reserves.

25 SPECIAL RESERVE

The special reserve, which has been created in accordance with the recommendations of the UAE Central Bank, is not available for distribution.

26 MUDARABA INSTRUMENT

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Mudaraba Instrument (nominal value)	1,025,560	1,025,560
Mudaraba Instrument Reserve	(810,088)	(810,088)
	<hr/>	<hr/>
Mudaraba Instrument (carrying value)	215,472	215,472
	<hr/> <hr/>	<hr/> <hr/>

On 25 November 2014, a Mudaraba Instrument of AED 1,300 million with a maturity in November 2026 was issued through a special purpose vehicle owned by the Group. On maturity Mudaraba Instrument to the extent it is not redeemed will mandatorily convert into ordinary shares of the Company with face value of AED 1 each.

The Mudaraba Instrument at the time of issue comprised:

1. Face Value of AED 1,300 million.
2. An expected profit rate of 1% per annum on the outstanding balance each year, payable as profit in kind ("PIK") which the Company can elect to make distributions in cash or in the form of shares.
3. A contingent issuance of upto 500 million shares applicable only to the extent the Mudaraba Instrument remains outstanding at maturity. The number of contingent shares to be issued is prorated with the amount of Mudaraba Instrument remaining outstanding.

26 MUDARABA INSTRUMENT (continued)

Mudaraba Instrument includes a clause giving effect to a potential increase in expected profit on the Mudaraba Instrument. The amount will be calculated as an increase in the applicable profit rate from 2% to 8% on outstanding payable to the commercial financiers (note 17). The aforementioned will be applicable in the event the group elects not to redeem the appropriate amount of Mudaraba Instrument immediately after the sale of qualifying investment properties.

At the Company's discretion, realised gains on the sale of qualifying investment properties (note 12), advance for investment properties (note 11) and properties under development (note 13) will be used to redeem the Mudaraba Instrument along with the relevant payable amount of PIK. As the Mudaraba Instrument is redeemed, there will be a proportionate reduction in the contingent share issuance due. In the event that a sale on a qualifying investment property is completed, but there is no corresponding redemption of Mudaraba Instrument, the expected profit will be subject to change as explained above. The qualifying investment property has an aggregate carrying value of AED 1,762 million as at 31 December 2018 (31 December 2017: AED 1,658 million), for which the aggregate trigger fair value for qualifying property disposal is AED 2,652 million (31 December 2017: AED 2,684 million).

The Mudaraba Instrument was recorded at fair value at the time of issuance. The difference between the fair value of the Mudaraba Instrument and the carrying value of the deposits it replaced of AED 1,027 million was recorded as a gain in the 2014 income statement as required by IFRS. Subsequent to initial recognition, the carrying value of the Mudaraba Instrument will not be re-measured. The fair value gain of AED 1,027 million on initial recognition of the Mudaraba Instrument was transferred from accumulated losses to the Mudaraba Instrument reserve. This reserve will be utilized in the event of any repayment of the Mudaraba Instrument or on issue of shares in the Company on maturity of the Mudaraba Instrument. Any difference between the par value of shares issued on conversion and the carrying value of the Mudaraba Instrument and Mudaraba Instrument reserve will be posted to retained earnings / accumulated losses.

The fair value of the Mudaraba Instrument was determined based on management's best estimate of the expected cash flows that will arise, discounted at the Company's cost of equity. For this purpose, management assumed that the Mudaraba Instrument will be redeemed, in full, in year 12 and the PIK charge for the 12 year period will be settled on the same date.

The fair value of the Mudaraba Instrument was calculated using a cost of equity of 14.96% calculated under the Capital Assets Pricing Model wherein the risk free return was based on UAE Government's long term bond; levered beta was based on comparable company's beta within similar businesses and a market risk premium was based on current market conditions which reflects the additional expected return over a risk free investment.

On 12 August 2015, the Board of Directors of the Company voluntarily opted to redeem AED 200 million against the Mudaraba Instrument which has reduced the Mudaraba Instrument and Mudaraba Instrument reserve by AED 42 million and 158 million respectively. The face value of Mudaraba instrument outstanding at 31 December 2018 is AED 1,026 million (31 December 2017: AED 1,100 million). The Company also paid AED 9 million in respect of PIK charge falling due as a consequence of the repayment of the Mudaraba Instrument with the amount being 1% of the outstanding Mudaraba Instrument from the date of restructuring to the date of redemption. This charge was recorded in accumulated losses in equity.

On 23 November 2017, the Board of Directors of the Company voluntarily opted to redeem AED 75 million against the Mudaraba Instrument which has reduced the Mudaraba Instrument and Mudaraba Instrument reserve by AED 16 million and 59 million respectively. The face value of Mudaraba instrument outstanding at 31 December 2018 is AED 1,026 million (31 December 2017: AED 1,026 million). The Company also paid AED 25 million in respect of PIK (profit) as a consequence of the redemption of the capital under the Mudaraba Instrument with the amount being 1% of the outstanding Mudaraba Instrument from the 1st redemption date to the 2nd redemption date. This charge was recorded in accumulated losses in equity.

At 31 December 2018, the maximum number of shares which may convert under the instrument are 1,512 million (31 December 2017: 1,512 million).

27 MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests is provided below:

Accumulated balances of material non-controlling interest:

	<i>Note</i>	2018 <i>AED'000</i>	2017 <i>AED'000</i>
Amlak Sky Gardens LLC	27.1	127,549	140,008
EFS Financial Services LLC		(21,214)	(12,087)
		<u>106,335</u>	<u>127,921</u>

(Loss) / profit allocated to material non-controlling interest:

	<i>Note</i>	2018 <i>AED'000</i>	2017 <i>AED'000</i>
Amlak Sky Gardens LLC	27.1	2,959	8,502
EFS Financial Services LLC		(9,126)	283
		<u>(6,167)</u>	<u>8,785</u>

27.1 The Group holds 100% share capital of Amlak Sky Gardens LLC. The Group uses Amlak Sky Gardens LLC as a special purpose entity, to hold in association with another party certain units in a building known as the Sky Gardens Project (“the Project”). The Group’s share is 67% under the terms of the Project agreement with the counterparty and the Project earnings are to be split in the ratio of the 67% to the Group and 33% to the other party. The funding has been classified as equity within Amlak Sky Gardens LLC and hence gives rise to a non-controlling interest at Group level.

The summarized financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

Summarized statement of income

2018:

	<i>Amlak Sky Gardens LLC</i> <i>AED'000</i>	<i>EFS Financial Services LLC</i> <i>AED'000</i>
Revenue	19,214	37
General and administrative expenses	(9,606)	(20,575)
Distribution to financiers / investors	-	(936)
Fair value loss on investment property	(640)	-
Total comprehensive income / (loss) for the year	<u>8,968</u>	<u>(21,474)</u>
Attributable to non-controlling interests	<u>2,959</u>	<u>(9,126)</u>

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

27 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

Summarized statement of income (continued)

2017:

	<i>Amlak Sky Gardens LLC AED'000</i>	<i>EFS Financial Services LLC AED'000</i>
Revenue	20,819	2,132
General and administrative expenses	(5,446)	(532)
Distribution to financiers / investors	-	(935)
Fair value gain on investment property	10,390	-
	<u>25,763</u>	<u>665</u>
Total comprehensive income for the year	<u>25,763</u>	<u>665</u>
Attributable to non-controlling interests	<u>8,502</u>	<u>283</u>

Summarized statement of financial position

2018:

	<i>Amlak Sky Gardens LLC AED'000</i>	<i>EFS Financial Services LLC AED'000</i>
Cash and bank balances	27,330	-
Advances for investment properties	-	30,037
Investment properties	376,900	-
Other assets	135	6,012
Term Islamic financing	-	(38,559)
Due to related party	-	(46,916)
Other liabilities	(10,551)	(490)
	<u>393,814</u>	<u>(49,916)</u>
Total equity	<u>393,814</u>	<u>(49,916)</u>
Attributable to:		
Equity holders of the parent	266,265	(28,702)
Non-controlling interests	127,549	(21,214)
	<u>393,814</u>	<u>(49,916)</u>

2017:

	<i>Amlak Sky Gardens LLC AED'000</i>	<i>EFS Financial Services LLC AED'000</i>
Cash and bank balances	31,659	8
Advances for investment properties	-	30,037
Investment properties	377,540	-
Other assets	-	24,388
Term Islamic financing	-	(38,559)
Due to related party	(7,389)	(43,880)
Other liabilities	-	(436)
	<u>401,810</u>	<u>(28,442)</u>
Total equity	<u>401,810</u>	<u>(28,442)</u>
Attributable to:		
Equity holders of the parent	261,802	(16,355)
Non-controlling interests	140,008	(12,087)
	<u>401,810</u>	<u>(28,442)</u>

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

27 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

Summarized statement of cash flows

2018:

	<i>Amlak Sky Gardens LLC AED'000</i>	<i>EFS Financial Services LLC AED'000</i>
Operating	12,636	(2,107)
Financing	(16,965)	2,100
Net decrease in cash and cash equivalents	<u>(4,329)</u>	<u>(7)</u>

2017:

	<i>Amlak Sky Gardens LLC AED'000</i>	<i>EFS Financial Services LLC AED'000</i>
Operating	13,746	1,653
Financing	(21,960)	(2,556)
Net decrease in cash and cash equivalents	<u>(8,214)</u>	<u>(903)</u>

28 SEGMENTAL INFORMATION

For management purposes, the Group is organised into three business segments, real estate finance (comprising of financing and investing activities), real estate investment (comprising of property transactions) and corporate finance investments.

Management monitors the operating results of its business units for the purpose of making decisions about resource allocation and assessment of performance.

Operating segments:

The Group's revenues and expenses for each segment for the year ended 31 December are as follows:

2018:

	<i>Real Estate Finance AED'000</i>	<i>Real Estate Investment AED'000</i>	<i>Corporate Finance Investments AED'000</i>	<i>Total AED'000</i>
Operating income	133,435	134,952	17,586	285,973
Distribution to financiers / investors	(48,174)	(46,711)	(17,267)	(112,152)
Allowances for impairment	(42,724)	(142,926)	(20,276)	(205,926)
Amortisation of fair value gain	(51,553)	(49,047)	(9,482)	(110,082)
Expenses (including allocated expenses)	(91,623)	(43,787)	(10,798)	(146,208)
Cost of sale of properties under development	-	(5,304)	-	(5,304)
Share of results of an associate	-	-	21,275	21,275
Segment results	<u>(100,639)</u>	<u>(152,823)</u>	<u>(18,962)</u>	<u>(272,424)</u>
Non-controlling interests				<u>6,167</u>
				<u>(266,257)</u>

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

28 SEGMENTAL INFORMATION (continued)

Operating segments: (continued)

2017:

	<i>Real Estate Finance AED'000</i>	<i>Real Estate Investment AED'000</i>	<i>Corporate Finance Investments AED'000</i>	<i>Total AED'000</i>
Operating income	236,913	153,461	16,515	406,889
Distribution to financiers / investors	(59,589)	(51,503)	(13,672)	(124,764)
Reversal / (allowances) for impairment	1,074	1,340	(2,000)	414
Amortisation of fair value gain	(54,033)	(46,701)	(9,279)	(110,013)
Expenses (including allocated expenses)	(82,836)	(34,608)	(7,645)	(125,089)
Cost of sale of properties under development	-	(21,670)	-	(21,670)
Share of results of an associate	-	-	25,568	25,568
Segment results	<u>41,529</u>	<u>319</u>	<u>9,487</u>	<u>51,335</u>
Non-controlling interests				<u>(8,785)</u>
				<u>42,550</u>

Segment assets and liabilities:

The following table presents segment assets and liabilities of the Group as at 31 December:

2018:

	<i>Real Estate Finance AED'000</i>	<i>Real Estate Investment AED'000</i>	<i>Corporate Finance Investments AED'000</i>	<i>Total AED'000</i>
Segment assets	<u>3,431,864</u>	<u>2,014,557</u>	<u>437,400</u>	<u>5,883,121</u>
Segment liabilities	<u>1,203,944</u>	<u>2,931,203</u>	<u>483,477</u>	<u>4,618,624</u>
Depreciation	<u>5,558</u>	<u>-</u>	<u>190</u>	<u>5,748</u>
Capital expenditure	<u>3,488</u>	<u>-</u>	<u>377</u>	<u>3,865</u>

2017:

	<i>Real Estate Finance AED'000</i>	<i>Real Estate Investment AED'000</i>	<i>Corporate Finance Investments AED'000</i>	<i>Total AED'000</i>
Segment assets	<u>4,211,495</u>	<u>1,941,354</u>	<u>426,395</u>	<u>6,579,244</u>
Segment liabilities	<u>1,885,362</u>	<u>2,689,584</u>	<u>433,390</u>	<u>5,008,336</u>
Depreciation	<u>6,177</u>	<u>-</u>	<u>140</u>	<u>6,317</u>
Capital expenditure	<u>1,034</u>	<u>-</u>	<u>202</u>	<u>1,236</u>

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

29 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. The pricing policies and terms of these transactions are approved by the Group's management.

Balances with related parties included in the consolidated statement of financial position are as follows:

31 December 2018:

	<i>Major shareholders AED'000</i>	<i>Directors and senior management AED'000</i>	<i>Other related parties AED'000</i>	<i>Total AED'000</i>
Cash and balances with banks	-	-	7,265	7,265
Islamic financing and investing assets	-	15,256	8,358	23,614
Investment securities	-	-	7,249	7,249
Investment deposits	117,688	-	941,789	1,059,477
Other assets (note 15)	-	-	703	703
Other liabilities	46	-	821	867
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

31 December 2017:

	<i>Major shareholders AED'000</i>	<i>Directors and senior management AED'000</i>	<i>Other related parties AED'000</i>	<i>Total AED'000</i>
Cash and balances with banks	-	-	113,802	113,802
Islamic financing and investing assets	-	18,268	10,915	29,183
Investment securities	-	-	7,249	7,249
Investment deposits	130,221	-	1,042,085	1,172,306
Other assets (note 15)	-	-	703	703
Other liabilities	51	-	860	911
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Transactions with related parties included in the statement of income are as follows:

31 December 2018:

	<i>Major shareholders AED'000</i>	<i>Directors and senior management AED'000</i>	<i>Other related parties AED'000</i>	<i>Total AED'000</i>
Income from Islamic financing and investing assets	-	545	418	963
Distributions to financiers / investors	2,403	-	19,231	21,634
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

31 December 2017:

	<i>Major shareholders AED'000</i>	<i>Directors and senior management AED'000</i>	<i>Other related parties AED'000</i>	<i>Total AED'000</i>
Income from Islamic financing and investing assets	-	590	652	1,242
Distributions to financiers / investors	2,641	-	21,131	23,772
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

29 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

The compensation paid to key management personnel of the Group is as follows:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Salaries and other benefits	14,365	14,730
Employee terminal benefits	1,872	471
	16,237	15,201

Directors' remuneration during the year ended 31 December 2018 has been disclosed in note 30(b).

30 COMMITMENTS AND CONTINGENCIES

Commitments

	<i>Notes</i>	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Irrevocable commitments to advance financing	30.1	290,336	386,477
Commitments for advances for investment properties	30.2	23,251	23,251
Commitments for investment properties	30.3	65,348	-
Commitments against capital expenditure	30.4	-	970
		378,935	410,698

30.1 Credit-related commitments include commitments to extend facilities designed to meet the requirements of the Group's customers. Commitments generally have fixed expiration dates, or other termination clauses, and normally require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

30.2 This represents commitments to property developers or sellers in respect of property purchases.

30.3 This represents commitments to property developers in respect of development of investment property.

30.4 This represents commitment towards implementation of IT projects.

Contingencies

a) The Group is engaged in certain litigation proceedings in the United Arab Emirates, involving claims by and against it, mainly in respect of certain sale and financing transactions. The Group is defending these cases and, based on legal counsel advice received, believes it is less than probable that such actions taken by counter parties would succeed, except for cases against which a provision of AED 3 million (2017: AED 3 million) has been made.

b) As at 31 December 2018, the Group had a contingent liability for proposed Directors' remuneration of AED Nil (2017: AED 3 million). Directors' remuneration, which is governed by UAE Federal Law No (2) of 2015, of AED 2.25 million was approved at Annual General Meeting (AGM) on 10 April 2018 and was paid during the year ended 31 December 2018.

c) The developer against which the Company commenced arbitration in 2013 as detailed in note 11 has in turn also filed an arbitration case against the Group during the year ended 31 December 2017 amounting to AED 669 million to recover purported losses. Based on the advice received from third party legal counsel, the Company has concluded it is unlikely that the counterparty will be successful with this action.

At 31 December 2018

31 RISK MANAGEMENT

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement, mitigation and monitoring subject to risk limits and other controls. This process of risk management is critical to the Group's sustainability. The Group is exposed to credit risk, liquidity risk, market risk and operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

The major risks to which the Group is exposed in conducting its business and operations, and the means and organizational structure it employs in seeking to manage them strategically in its attempt to build stakeholder's value are outlined below.

The Board of Directors ("Board") is responsible for the continuous review and approval of the Group's Risk Policies and Medium Term and Annual Risk Strategy, within which business strategy, objectives and targets are formulated. The Board reviews the Group's Risk Profile to ensure that it is within the Group's Risk Policies and appetite parameters. It delegates authority to senior management to conduct day-to-day business within the prescribed policy and strategy parameters, whilst ensuring that processes and controls are adequate to manage the Group's Risk Policies and Strategy.

Executive Management is responsible for implementing the Group's Risk Strategy and Policy guidelines as set by the Board including the identification and evaluation on a continuous basis of all significant risks to the business and the design and implementation of appropriate internal controls to minimise them. This is done through the following senior management committees:

The Audit Committee is responsible to the Board for ensuring that the Group maintains an effective system of financial, accounting and risk management controls and for monitoring compliance with the requirements of the regulatory authorities.

The Group's Fatwa and Sharia Supervisory Board is responsible to review the operational, financing and investing activities of the Group ensuring their alignment and compliance with the principles of Sharia. Being a supervisory board they are also required to audit the business activities undertaken and present an independent report to the shareholders. Fatwas and ongoing pronouncements issued by Fatwa and Sharia Supervisory Board are coordinated and implemented by the management of the Group. The management of the Group seeks guidance from the Fatwa and Sharia Supervisory Board for the implementation of its Fatwas and pronouncements.

Credit department is responsible for portfolio management and evaluation, credit policy and procedure formulation, country risk and counterparty analysis, approval/review and exposure reporting, control and risk-related regulatory compliance, dealing with impaired assets and portfolio management.

The Asset and Liability Committee (ALCO) is chiefly responsible for defining long-term strategic plans and short-term tactical initiatives for directing asset and liability allocation prudently for the achievement of the Group's strategic goals. ALCO monitors the Group's liquidity and market risks and the Group's risk profile in the context of economic developments and market fluctuations, to ensure that the Group's ongoing activities are compatible with the risk/reward guidelines approved by the Board.

The Risk Committee is responsible for risk management. The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur. It is also responsible for identifying market and operational risks arising from the Group's activities, recommending to the relevant committees appropriate policies and procedures for managing exposure to such risks and establishing the systems necessary to implement effective controls.

Monitoring and controlling risks are primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

31 RISK MANAGEMENT (continued)

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Excessive risk concentration

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

The Group's risk is mainly related to the property market in the UAE, in particular in Dubai.

In order to avoid further excessive concentration of risk, the Group's policies and procedures include specific guidelines to focus on counter party limits and maintaining a diversified portfolio. Identified concentration of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Group. Such risk stems mainly from day to day Islamic financing activities undertaken by the Group. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated financing authorities, policies and procedures. For details of composition of Islamic financing assets refer note 9.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties and continually assessing the creditworthiness of counter parties. The Group has built and maintains a sound receivable portfolio in terms of a well-defined Credit Policy approved by the Board of Directors. Its credit evaluation system comprises of well-designed credit appraisal, sanctioning and review procedures for the purpose of emphasising prudence in its financing activities and ensuring quality of asset portfolio. Special attention is paid to the management of non-performing financing assets.

The Group constantly monitors overall credit exposure and takes analytical and systematic approaches to its credit structure categorized by individuals, group and industry and consequently, the credit portfolio is well diversified sectorally and by nationalities, with no significant concentration.

The Group provides Ijara financing, as evident from the portfolio composition, which entails the ownership of the property with the Group till clearance of all rental payments due. This results in collateralisation of the finance amount (fixed rentals). The Group's customers are mainly based in the United Arab Emirates.

Credit risk measurement

The estimation of credit risk for risk management purpose is complex and requires use of models, as the exposure varies with changes in market condition, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring and of the associated loss ratios. The Group measures credit risk using PD, EAD and LGD. This is similar to the approach used for the purpose of measuring ECL under IFRS 9.

ECL measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit-quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition date is classified in stage 1 and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'stage 2' but is not yet deemed to be credit-impaired. If the financial instrument is credit-impaired, the financial instrument is then moved to stage 3.
- Financial instrument in stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months.
- Instruments in stages 2 or 3 have their ECL measured based on a lifetime basis. ECL is measured after factoring forward-looking information.
- ECL on Purchase or originated credit-impaired financial assets is measured on a lifetime basis.

31 RISK MANAGEMENT (continued)

Credit risk measurement (continued)

Significant increase in credit risk

The Company uses the many indicators to identify any significant increases in credit risk (SICR). The occurrence of any one of those indicators should be considered as an indicator of SICR and consequently the related financial instrument will be classified as Stage 2 and attract a lifetime ECL. Following are key indicators

- Internally set scorecard
- Customer delinquency status
- Watch list status
- Probability of default
- Restructured status of the customers
- Regulatory guidance

Backward transition

Back ward transition from stage 2 to stage 1

The Group continues to monitor such financial instruments for a minimum cooling period of 6 months to confirm if the risk of default has decreased on the basis of meeting certain criteria, sufficiently before upgrading such exposure from Lifetime ECL (Stage 2) to 12 months ECL (Stage 1)

The Group is observing a probationary period of a minimum of 3 instalments (for repayments which are on a quarterly basis or shorter) and 12 months (in cases where instalments are on a longer frequency than quarterly) after the restructuring, before upgrading from Stage 3 to 2.

Back ward transition from stage 3 to stage 2

The Group monitors that underlying facility have become regular, is current and no longer meets the definition of credit impaired or is in default before it is reclassified back from stage 3. Any upgrading of non-performing exposure to a performing status is subject to a cooling off period of 6 months from the date of becoming regular in repayment. Any facility classified in Stage 3 cannot be directly classified in Stage 1 and should meet the backward transition criteria for Stage 2 to Stage 1 as documented above.

Forward-looking information incorporated in the ECL model

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio.

These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument. Expert judgement has also been applied in this process. Forecast of these economic variables (the “base economic scenario”) are provided by the Group’s Risk team on a quarterly basis.

The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

31 RISK MANAGEMENT (continued)**Credit risk (continued)****QUANTITATIVE INFORMATION****Maximum exposure to credit risk without taking account of any collateral and other credit enhancements**

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross.

	<i>Gross maximum exposure 2018 AED'000</i>	<i>Gross maximum exposure 2017 AED'000</i>
Balances with banks (note 8)	255,928	672,956
Islamic financing and investing assets (note 9)	2,703,850	3,084,983
Advances for investment properties (note 11)	322,818	322,818
Other assets (excluding prepayments) (note 15)	63,555	125,723
Total credit risk exposure	<u>3,346,151</u>	<u>4,206,480</u>

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values. For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial asset, based on the Group's credit rating system.

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

31 RISK MANAGEMENT (continued)

Credit risk (continued)

31 December 2018

	Neither impaired nor past due on reporting date				Past due but not impaired on reporting date				Individually impaired on reporting date		
	Carrying amount AED'000	Low/fair risk AED'000	Watch list AED'000	Re-negotiated terms AED'000	<30 AED'000	30-60 AED'000	61-90 days AED'000	>90 days AED'000	Carrying amount AED'000	Allowance for impairment AED'000	Gross amount AED'000
Balances with banks	255,928	255,928	-	-	-	-	-	-	-	-	-
Islamic financing and investing assets	2,703,850	1,477,927	12,853	178,226	382,177	118,495	62,955	145,272	325,945	(274,646)*	600,591
Advances for investment Properties	322,818	-	292,781	-	-	-	-	-	30,037	(8,582)	38,619
Other assets (excluding prepayments)	63,555	37,233	20,322	-	-	-	-	-	6,000	(32,955)	38,955
	<u>3,346,151</u>	<u>1,771,088</u>	<u>325,956</u>	<u>178,226</u>	<u>382,177</u>	<u>118,495</u>	<u>62,955</u>	<u>145,272</u>	<u>361,982</u>	<u>(316,183)</u>	<u>678,165</u>

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

31 RISK MANAGEMENT (continued)

Credit risk (continued)

31 December 2017

	<i>Neither impaired nor past due on reporting date</i>				<i>Past due but not impaired on reporting date</i>				<i>Individually impaired on reporting date</i>		
	<i>Carrying amount AED'000</i>	<i>Low/fair risk AED'000</i>	<i>Watch list AED'000</i>	<i>Re-negotiated terms AED'000</i>	<i><30 AED'000</i>	<i>30-60 AED'000</i>	<i>61-90 days AED'000</i>	<i>>90 days AED'000</i>	<i>Carrying amount AED'000</i>	<i>Allowance for impairment AED'000</i>	<i>Gross amount AED'000</i>
Balances with banks	672,956	672,956	-	-	-	-	-	-	-	-	-
Islamic financing and investing assets	3,084,983	1,913,217	96,172	106,206	327,622	141,174	118,600	135,692	246,300	(213,467)*	459,767
Advances for investment properties	322,818	-	292,781	-	-	-	-	-	30,037	(8,582)	38,619
Other assets (excluding prepayments)	125,723	95,514	5,840	-	-	-	-	-	24,369	(32,955)	57,324
	<u>4,206,480</u>	<u>2,681,687</u>	<u>394,793</u>	<u>106,206</u>	<u>327,622</u>	<u>141,174</u>	<u>118,600</u>	<u>135,692</u>	<u>300,706</u>	<u>(255,004)</u>	<u>555,710</u>

* In addition to the stage 3 / specific provision as above, the Group has also made provisions on other portfolio falling under stage 1, stage 2 and individually assessed projects amounting to AED 210.53 million (31 December 2017: collective provision: AED 126.12 million and provision on hold projects: AED 120.6 million).

31 RISK MANAGEMENT (continued)

Collateral and other credit enhancements

The finance provided by the Group is completely asset backed in accordance with the principles of Shariah. Properties are funded based on "Group's Appraised Value". In the case of new properties, the appraised value is similar to the developers' per square footage rate further assessed by independent valuation and internal assessment. In the case of older properties the appraised value is based on the valuation report from independent third party valuers obtained on regular basis.

Property insurance is mandatory and the property is insured against all normal risks for the value stated in the sale agreement, or the valuation amount given by the surveyor, as the case maybe. The insured value is maintained at the original property value through the life of the finance.

Market risk

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

The Group has established risk management policies and limits within which exposure to market risk is monitored, measured and controlled with strategic oversight exercised by the Board and ALCO. These units are responsible for developing and implementing market risk policy and risk measuring/monitoring methodology and for reviewing all new trading products and product limits.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As the UAE Dirham and Saudi Riyal are pegged to the US Dollar, the balances in Saudi Riyal are not considered to represent significant currency risk.

		2018			2017	
	<i>% Change in currency rate in AED</i>	<i>Effect on profit AED '000</i>	<i>Effect on Equity AED'000</i>	<i>% Change in currency rate in AED</i>	<i>Effect on Profit AED '000</i>	<i>Effect on Equity AED '000</i>
Currency						
Egyptian Pound (LEY)	± 5%	± 613	± 9,649	± 5%	± 584	± 9,077

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. In the Group's financial statements, mainly two line items can lead to such exposure i.e. Islamic financing assets and financing obligations, as shown on the assets and liabilities sides respectively. The profit rate risk for the Group is minimal in the short term period. The profit rate for financing assets is a composition of EIBOR and internal spread which can be expected to fluctuate frequently based on EIBOR movement. The Group reviews the profit rate on a regular basis during its ALCO meeting and, if required, recommends a rate change based on market conditions and competitiveness.

The financing obligations, are contractually fixed/capped rate contracts as determined on contract initiation. Any rate change has no impact for already entered arrangements.

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, on the Group's statement of income.

The sensitivity of the statement of income is the effect of the assumed changes in profit rates on the results for one year, based on profit bearing financial assets and financial liabilities held at 31 December 2018.

	2018 AED '000	2017 AED '000
Effect of a ± 50 bps change in EIBOR	₹ 14,106	₹ 15,624
Effect of a ± 100 bps change in EIBOR	₹ 28,213	₹ 31,248

31 RISK MANAGEMENT (continued)

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure that arises from the Group's investment portfolio includes insignificant quoted equities.

Early settlement risk

Early settlement risk is the risk that the Group will incur a financial loss because its counterparties settle earlier than expected.

The Group does not have any significant early settlement risk as the amount recovered in case of early settlement is more than the carrying value of the asset on early settlement date, by retaining an amount of deferred profit or adding a margin to the sale price of the Ijarah asset as an early settlement gain. The collection team monitors the customer receivable position on a daily basis.

Liquidity risk

The table below summarises the maturity profile of the Group's financial liabilities and off balance sheet commitments based on contractual undiscounted payment obligations. Payments, which are subjected to notice, are treated as if notice were to be given immediately.

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

31 RISK MANAGEMENT (continued)

Liquidity risk (continued)

At 31 December 2018

	<i>Expected Profit rate %</i>	<i>Up to 1 year</i>			<i>Total up to 1 year AED'000</i>	<i>1 year to 5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>Items with no maturity AED'000</i>	<i>Total AED'000</i>
		<i>Less than 3 months AED'000</i>	<i>3 months to 6 months AED'000</i>	<i>6 months to 1 year AED'000</i>					
Investment deposits and other Islamic financing	2% - 4%	210,567	233,268	462,148	905,983	2,551,908	1,666,263	-	5,124,154
Term Islamic financing	6.5% - 21%	4,104	7,354	8,782	20,240	82,146	25,621	-	128,007
		<u>214,671</u>	<u>240,622</u>	<u>470,930</u>	<u>926,223</u>	<u>2,634,054</u>	<u>1,691,884</u>	<u>-</u>	<u>5,252,161</u>
OFF BALANCE SHEET ITEMS									
Commitments		<u>281,276</u>	<u>380</u>	<u>2,262</u>	<u>283,918</u>	<u>95,017</u>	<u>-</u>	<u>-</u>	<u>378,935</u>

At 31 December 2017

	<i>Expected Profit rate %</i>	<i>Up to 1 year</i>			<i>Total up to 1 year AED'000</i>	<i>1 year to 5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>Items with no maturity AED'000</i>	<i>Total AED'000</i>
		<i>Less than 3 months AED'000</i>	<i>3 months to 6 months AED'000</i>	<i>6 months to 1 year AED'000</i>					
Investment deposits and other Islamic financing	2% - 4%	74,846	235,110	465,693	775,649	3,450,541	1,568,171	-	5,794,361
Term Islamic financing	6.5% - 21%	2,202	2,158	4,229	8,589	68,405	-	-	76,994
		<u>77,048</u>	<u>237,268</u>	<u>469,922</u>	<u>784,238</u>	<u>3,518,946</u>	<u>1,568,171</u>	<u>-</u>	<u>5,871,355</u>
OFF BALANCE SHEET ITEMS									
Commitments		<u>381,919</u>	<u>3,432</u>	<u>2,097</u>	<u>387,448</u>	<u>23,250</u>	<u>-</u>	<u>-</u>	<u>410,698</u>

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

31 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Maturity analysis of assets and liabilities

The maturity analysis of assets, liabilities and off balance sheet items analysed according to when they are expected to be recovered, settled or sold. The values presented in this table include the impact of fair value adjustment as per the statement of financial position and excludes profit not yet due at year end.

December 31 2018

	<i>Up to 1 year</i>			<i>Total up to 1 year AED'000</i>	<i>1 year to 5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>Items with no maturity AED'000</i>	<i>Total AED'000</i>
	<i>Less than 3 months AED'000</i>	<i>3 months to 6 months AED'000</i>	<i>6 months to 1 year AED'000</i>					
Assets								
Cash and balances with banks	87,086	-	-	87,086	133,901	-	35,000	255,987
Islamic financing and investing assets	338,343	87,992	205,917	632,252	521,766	1,549,832	-	2,703,850
Investment securities	-	-	-	-	-	-	7,714	7,714
Advance for Investment Properties	-	-	-	-	30,037	292,781	-	322,818
Investment Properties	-	-	250,780	250,780	1,045,339	692,952	-	1,989,071
Properties under Development	-	-	-	-	230,845	-	-	230,845
Investment in an associate	-	86,702	-	86,702	-	202,303	-	289,005
Other assets	39,821	17,462	1,688	58,971	8,346	-	-	67,317
Furniture, fixture and office equipment	-	-	-	-	-	-	17,214	17,214
Total assets	465,250	192,156	458,385	1,115,791	1,970,234	2,737,868	59,928	5,883,821
Liabilities								
Investment deposits and other Islamic financing	-	157,297	361,552	518,849	1,884,851	1,814,325	-	4,218,025
Term Islamic financing	2,347	5,654	5,654	13,655	33,850	64,180	-	111,685
Employees' end of service benefits	-	-	-	-	-	-	4,398	4,398
Other liabilities	101,467	2,278	3,044	106,789	30,946	146,781	-	284,516
Total liabilities	103,814	165,229	370,250	639,293	1,949,647	2,025,286	4,398	4,618,624
Commitments	281,276	380	2,262	283,918	95,017	-	-	378,935
Net liquidity gap	80,160	26,547	85,873	192,580	(74,430)	712,582	55,530	886,262
Cumulative net liquidity gap	80,160	106,707	192,580	192,580	118,150	830,732	886,262	886,262

Amlak Finance PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

31 RISK MANAGEMENT (continued)

Liquidity risk (continued)

The liquidity risk table above

Maturity analysis of assets and liabilities (continued)

December 31 2017

	Up to 1 year			Total up to 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	Items with no maturity AED'000	Total AED'000
	Less than 3 months AED'000	3 months to 6 months AED'000	6 months to 1 year AED'000					
<i>Assets</i>								
Cash and balances with banks	430,403	2,159	-	432,562	205,453	-	35,000	673,015
Islamic financing and investing assets	663,413	57,335	85,318	806,066	662,782	1,616,135	-	3,084,983
Investment securities	-	-	-	-	-	-	12,387	12,387
Advance for Investment Properties	-	-	-	-	30,037	292,781	-	322,818
Investment Properties	-	-	-	-	1,121,691	699,373	-	1,821,064
Properties under Development	-	-	-	-	212,849	-	-	212,849
Investment in an associate	-	-	-	-	-	-	302,567	302,567
Other assets	122,193	2,864	6,594	131,651	838	-	-	132,489
Furniture, fixture and office equipment	-	-	-	-	-	-	17,072	17,072
Total assets	1,216,009	62,358	91,912	1,370,279	2,233,650	2,608,289	367,026	6,579,244
<i>Liabilities</i>								
Investment deposits and other Islamic financing	68,406	205,218	410,437	684,061	2,153,547	1,954,429	-	4,792,037
Term Islamic financing	1,158	1,157	2,314	4,629	22,948	38,559	-	66,136
Employees' end of service benefits	-	-	-	-	-	-	6,551	6,551
Other liabilities	121,733	3,383	7,609	132,725	10,887	-	-	143,612
Total liabilities	191,297	209,758	420,360	821,415	2,187,382	1,992,988	6,551	5,008,336
Commitments	381,919	3,432	2,097	387,448	23,250	-	-	410,698
Net liquidity gap	642,793	(150,832)	(330,545)	161,416	23,018	615,301	360,475	1,160,210
Cumulative net liquidity gap	642,793	491,961	161,416	161,416	184,434	799,735	1,160,210	1,160,210

31 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Post financial restructuring the Group has significantly reduced its liquidity risk. The Group will be able to continue to meet its commitments for the foreseeable future without any significant liquidity mismatch.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Capital Management

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. The restructuring effected at 25 November 2014 represented a significant change in the capital structure of the Group. Capital comprises share capital, treasury shares, statutory reserve, general reserve, special reserve, cumulative changes in fair value, foreign currency translation reserve, Mudaraba Instrument, Mudaraba Instrument reserve and accumulated losses and is measured at AED 1,159 million as at 31 December 2018 (31 December 2017: AED 1,443 million).

Fair value of financial assets and liabilities

The fair values of the Group's financial assets and liabilities at the reporting date approximate their carrying values as reflected in these financial statements.

32 SOCIAL CONTRIBUTIONS

The Company pursues a Corporate Social Responsibility strategy and is formally registered with the Dubai Chamber of Commerce and Industry (DCCI) for Dubai Chamber CSR Label program. The Company has made social contributions mainly to Al Noor Centre for Children with special needs and Rashid Centre for disabled towards humanitarian activities during the year.