Report and financial statements
for the year ended 31 December 2017

Mashreq Al-Islami Finance Company
(P.J.S.C.) Dubai - United Arab Emirates

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Dubai - United Arab Emirates

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for the year ended 31 December 2017

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INDEPENDENT AUDITOR'S REPORT

The Shareholders
Mashreq Al-Islami Finance Company (P.J.S.C.)
Dubai
United Arab Emirates

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of **Mashreq Al-Islami Finance Company (P.J.S.C.), Dubai, United Arab Emirates** (the "Company"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the Board of Director's report which we obtained prior to the date of this auditor's report. The other information does not include the financial statements and our report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Anis Sadek (521), Cynthia Corby (995), Georges Najem (809), Mohammad Khamees Al Tah (717), Musa Ramahi (872), Mutasem Dajani (726), Rama Padmanabha Acharya (701) and Samir Madbak (386) are registered practising auditors with the UAE Ministry of Economy.

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Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a 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 ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risk, 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance the management 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.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements

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

i) We have obtained all the information we considered necessary for the purposes of our audit;

ii) The financial statements of the Company have been prepared and comply, in all material respects, with the applicable provisions of the U.A.E. Federal Law No. (2) of 2015;

iii) The Company has maintained proper books of account;

iv) The financial information included in the Board of Directors report is consistent with the books of account of the Company;

v) The Company has not purchased or invested in any shares during the year ended 31 December 2017;

vi) Note 7 to the financial statements of the Company discloses material related party transactions and the terms under which they were conducted;

vii) There were no social contributions made during the year, and

viii) 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 2017 with any of the applicable provisions of the U.A.E. Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2017.

Deloitte & Touche (M.E.)

Musa Ramahi
Partner
Registration No. 872
29 March 2018
Dubai
United Arab Emirates

Statement of financial position
as at 31 December 2017

	Notes	2017 AED'000	2016 AED'000
ASSETS			
Cash and cash equivalents	5	1,258	10
Islamic financing products measured at amortised cost	8	1,740,715	1,615,213
Other assets		31	38
Property and equipment	9	211,224	211,224
Total assets		1,953,228	1,826,485
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to bank	7	1,115,771	1,030,559
Other liabilities	10	5,378	835
Total liabilities		1,121,149	1,031,394
Shareholders' equity			
Issued and paid up share capital	11	500,000	500,000
Statutory reserve	12	32,665	28,966
Retained earnings		299,414	266,125
Total shareholders' equity		832,079	795,091
Total liabilities and shareholders' equity		1,953,228	1,826,485

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

....
Abdul Aziz Abdulla Al Ghurair

....
Ali Raza Khan

Statement of comprehensive income
for the year ended 31 December 2017

	Notes	2017 AED'000	2016 AED'000
Income			
Income from Murabaha		**48,918**	55,331
Income from Ijarah		**45,173**	32,858
Fees and commission income	13	**7,559**	11,568
Other income	9	-	35,180
Total income		**101,650**	134,937
Expenses			
General and administrative expenses	14	**(26,194)**	(24,827)
Allowance for impairment, net	15	**(38,468)**	(39,655)
Total expenses		**(64,662)**	(64,482)
Profit for the year		**36,988**	70,455
Other comprehensive income		-	-
Total comprehensive income for the year		**36,988**	70,455

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

Statement of changes in shareholders' equity for the year ended 31 December 2017

	Issued and paid up share capital AED'000	Statutory reserve AED'000	Retained earnings AED'000	Total AED'000
Balance at 1 January 2016	500,000	21,920	202,716	724,636
Profit for the year	-	-	70,455	70,455
Total comprehensive income for the year	-	-	70,455	70,455
Transferred to statutory reserve	-	7,046	(7,046)	-
Balance at 31 December 2016	500,000	28,966	266,125	795,091
Profit for the year	**-**	**-**	**36,988**	**36,988**
Total comprehensive income for the year	**-**	**-**	**36,988**	**36,988**
Transferred to statutory reserve	**-**	**3,699**	**(3,699)**	**-**
Balance at 31 December 2017	**500,000**	**32,665**	**299,414**	**832,079**

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

Statement of cash flows
for the year ended 31 December 2017

	Notes	2017 AED'000	2016 AED'000
Cash flows from operating activities			
Profit for the year		**36,988**	70,455
Adjustments for:			
Allowance for impairment, net	15	**38,468**	39,655
Reversal of impairment on property and equipment		-	(35,170)
Operating cash flows before changes in operating assets and liabilities		**75,456**	74,940
Increase in Islamic financing products measured at amortised cost		**(163,970)**	(212,580)
Decrease in other assets		**7**	62
Increase/(decrease) in other liabilities		**4,543**	(273)
Net cash used in operating activities		**(83,964)**	(137,851)
Cash flows from investing activity			
Decrease in other financial assets measured at amortised cost		-	3,464
Net cash generated from investing activity		-	3,464
Cash flows from financing activity			
Increase in due to bank		**85,212**	134,387
Net cash generated from financing activity		**85,212**	134,387
Net decrease in cash and cash equivalents		**1,248**	-
Cash and cash equivalents at 1 January		**10**	10
Cash and cash equivalents at 31 December (Note 5)		**1,258**	10

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

1. General information

Mashreq Al-Islami Finance Company (P.J.S.C.) (the "Company") is a private joint-stock company and is a subsidiary of Mashreqbank psc, Dubai (the "Parent Company"). The Company was incorporated in the United Arab Emirates under a trade license issued by the Department of Economic Development of the Government of Dubai.

The address of the registered office of the Company is P.O. Box 1250, Dubai, United Arab Emirates.

The Company carries out financing activities through various Islamic products & instruments, in accordance with Islamic Shari'ah principles which include prohibition of usury.

Shari'ah Supervisory Board

The Company's business activities are subject to the supervision of the Shari'ah Supervisory Board which is entrusted with the duty of reviewing and directing the activities of the Company in accordance with the Islamic Shari'ah rules and principles.

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

2.1 New and revised IFRS applied with no material effect on the financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2017, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 12 *Income Taxes* relating to the recognition of deferred tax assets for unrealised losses.
- Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities ; and the Company has applied these amendments for the first time in the current year. The Company's liabilities arising from financing activities consist of unsecured overdraft facility from parent company "Mashreq Bank psc". A reconciliation between the opening and closing balances of the due to bank balance is provided in note 7. Consistent with the transition provisions of the amendments, the Company has not disclosed comparative information for the prior period. Apart from the additional disclosure in note 7, the application of these amendments has had no impact on the Company financial statements.
- Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12 *Disclosure of Interests in Other Entities.*

2.2 New and revised IFRS in issue but not yet effective

The Company has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 28 *Investments in Associates and Joint Ventures (2011).*	1 January 2018

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
IFRIC 22 *Foreign Currency Transactions and Advance Consideration* The interpretation addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary.	1 January 2018
Amendments to IFRS 2 *Share-Based Payment* regarding classification and measurement of share based payment transactions.	1 January 2018
Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 *Financial Instruments* and the forthcoming new insurance contracts standard.	1 January 2018
Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
Finalized version of IFRS 9 [IFRS 9 Financial Instruments (2014)] was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and DE recognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model. ➢ **Impairment**: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized. ➢ **Hedge accounting**: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. ➢ **Derecognition**: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.	1 January 2018

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
Finalized version of IFRS 9 [IFRS 9 Financial Instruments (2014)] (continued)	
A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.	
A new impairment model based on expected credit losses will apply to debt instruments measured at amortized costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.	
IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018

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

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

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

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

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 15 *Revenue from Contracts* with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	1 January 2018
Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.	1 January 2019
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authorities' examinations;
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- The effect of changes in facts and circumstances.

IFRS 16 *Leases*	1 January 2019

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

Amendments to IFRS 9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2019

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	1 January 2019
IFRS 17 *Insurance Contracts* IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.	1 January 2021
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements for the period of initial application and adoption of these new standards, interpretations and amendments, except for IFRS 9, may have no material impact on the financial statements of the Company's in the period of initial application.

The IASB issued the final version of IFRS 9 Financial Instruments in July 2014 that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company has in previous years adopted the first phase of the IFRS 9 with regards to classification and measurement of financial instruments and plans to adopt the final phase of IFRS 9 (impairment and hedge accounting) on the required effective date from 1 January 2018. The Company will avail of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement including impairment change. Differences in the carrying amounts of financial assets resulting from the impairment assessment as required by IFRS 9 will be recognized in opening retained earnings and reserves as at 1 January 2018.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

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

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

(a) Impairment of financial assets

Under IFRS 9, the impairment requirements apply to financial assets measured at amortised cost, debt instruments classified as fair value through other comprehensive income and certain loan commitments and financial guarantee contracts. At initial recognition, allowance is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). For revolving facilities including credit cards and overdrafts, the Bank measures ECLs over its contractual maturity period.

For financial guarantee contracts, the Company will estimate the lifetime ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party.

During the year 2017, the Company has performed a detailed impact assessment of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company, until the Company presents its first financial statements that include the date of initial application. Based on this assessment, the management has concluded that the impact on the allowance for impairment of adopting the final phase of IFRS 9 will be immaterial.

(b) Disclosure

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Company's assessment included an analysis to identify data gaps against current process and the Company has implemented the system and controls changes that it believes will be necessary to capture the required data.

3. Significant accounting policies

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the Shari'ah rules and principles as determined by the Company's Shari'ah Supervisory Board to the extent that those are compatible with IFRS and applicable requirements of U.A.E. laws (including Central Bank of the U.A.E. requirements as related to impairment of financial assets).

3.2 Basis of preparation

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

The principal accounting policies adopted are set out below.

3. Significant accounting policies (continued)

3.3 Revenue recognition

Income from Islamic financing products

The Company's policy for recognition of income from Islamic financing products is described in Note 3.11 (iii).

Fee and commission income and expenses

Fee and commission income and expenses are accounted for on the date the transaction arises.

3.4 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

3.5 Foreign currencies

These financial statements are presented in United Arab Emirates Dirham (AED) since that is the currency of the country in which the Company is domiciled.

Transactions denominated in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing at the end of the reporting period. Gains and losses arising from foreign currency transactions are included in the statement of comprehensive income.

3.6 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any, except for land which is measured at cost less accumulated impairment loss, if any. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income when incurred.

The estimated useful lives, residual values and depreciation method are reviewed at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income for that year.

3. Significant accounting policies (continued)

3.7 Impairment of tangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the statement of comprehensive income.

3.8 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.9 Financial instruments

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

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

3. Significant accounting policies (continued)

3.9 Financial instruments (continued)

3.9.1 Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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

Classification of financial assets

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'financial assets measured at amortized cost'.

Financial assets measured at amortized cost, including Islamic financing products, are measured at amortised cost if both of the following conditions are met:

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

All other financial assets are subsequently measured at fair value.

Amortized cost and effective profit method

The effective profit method is a method of calculating the amortized cost of a financial asset measured at amortized cost and of allocating profit over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financial asset measured at amortized cost, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Profit is recognized on an effective profit basis for financial asset measured subsequently at amortized cost. Profit is recognized in the income statement.

Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore, for financial assets that are designated as at FVTOCI, any foreign exchange component is recognized in other comprehensive income.

For foreign currency denominated financial asset measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the financial assets and are recognized in the statement of comprehensive income.

3. Significant accounting policies (continued)

3.9 Financial instruments (continued)

3.9.1 Financial assets (continued)

Impairment of financial assets measured at amortized cost

Financial assets measured at amortized cost are assessed for indicators of impairment at each reporting date. Financial assets measured at amortized cost are impaired where there is an objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset measured at amortized cost, the estimated future cash flows of the investment have been impacted. For financial assets measured at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective profit rate.

The carrying amount of the financial asset measured at amortized cost is reduced by the impairment loss directly with the exception of Islamic financing products and other financial assets measured at amortized cost where the carrying amount is reduced through the use of an allowance account. When advance receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of comprehensive income.

Impairment of retail Islamic financing products is calculated by applying a formulaic approach whereby a provision of 25% of net exposure is made when it is past due by more than 90 days, a provision of 50% of net exposure is made when it is past due by more than 120 days. All financings that are past due by more than 180 days are written off or are fully provided for net of collateral held.

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in the income statement.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to the income statement, but is reclassified to retained earnings.

3. Significant accounting policies (continued)

3.9 Financial instruments (continued)

3.9.2 Financial liabilities and equity instruments

Classification as liability or equity

Liability and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments

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

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective profit rate method.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantee contracts issued by the Company, and commitments issued by the Company to extending finance at below-market profit rate are measured in accordance with the specific accounting policies set out below.

Financial liabilities subsequently measured at amortized cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortized cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortized cost are determined based on the effective profit method.

The effective profit method is a method of calculating the amortized cost of a financial liability. The effective profit rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments and are recognized in the income statement.

De-recognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in income statement.

3. Significant accounting policies (continued)

3.10 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the statement of financial position only when there is a legally enforceable right to set off the recognized amounts or when the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.11 Islamic financing products

All Islamic financing products are accounted for in conformity with the accounting policies described below:

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

An agreement whereby the Company sells to a customer a commodity or an asset, which the Company has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin which are separately disclosed to the customer

Ijarah

An agreement whereby the Company acting as a lessor, purchases or constructs an asset for lease according to the customer's request (lessee), based on his promise to lease the asset for an agreed rent and a specific period that could end by transferring the ownership of the leased asset to the lessee.

Mudaraba

Mudaraba is a profit sharing partnership contract between a capital provider (Rab-ul-Mal) and a fund manager (Mudarib). In a depository relationship with the Company, the Company acts as a Mudarib and customer as Rab-ul-Mal whereas in case of a financing or investment mode, the Company acts as the capital provider (Rab ul Mal) and the customer as the Fund Manager (Mudarib). In both of cases Mudaraba Contract is a profit sharing arrangement wherein capital provider bears the risk and the Mudarib (Fund Manager) contributes expertise and management skills. In case of loss, it falls on the capital provider (Rab-ul-Mal) except in the case of negligence, misconduct and breach of contract by the Mudarib (Fund Manager).

Sukuk

These comprised asset backed Shari'ah compliant trust certificates. The trust certificate owners share the return and bear the losses in proportion to the certificates held by them.

3. Significant accounting policies (continued)

3.11 Islamic financing products (continued)

(ii) Accounting policy

Islamic financing products are measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income.

The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Allowance for impairment is made against Islamic financing products when their recovery is in doubt taking into consideration IFRS requirements and the United Arab Emirates Central Bank guidelines. Islamic financing products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

(iii) Revenue recognition policy

Income from Islamic financing assets is recognised in the income statement using the effective profit method.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

Murabaha

Murabaha income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

Ijarah

Ijarah income is recognised on effective profit rate basis over the lease term.

Profit and coupon revenue

Profit and coupon revenue is accrued on a time basis, by reference to the principal outstanding and at the effective profit rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

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

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

(i) Impairment of Islamic financing products measured at amortised cost

The Company reviews its Islamic financing products on a regular basis to assess whether a provision for impairment should be recorded in the income statement in relation to any non-performing assets. 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.

Impairment is calculated by applying a formulaic approach whereby a provision of 25% of financing balance is made when it is past due by more than 90 days and less than 120 days and a provision of 50% of financing balance is made when is past due by more than 120 days and less than 180 days. All financings that are past due by more than 180 days are written off or are fully provided for net of collateral.

(ii) Classification and measurement of financial assets

The classification and measurement of the financial assets depend on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial asset assessed. Management is satisfied that the Company's investments are appropriately classified and measured.

5. Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and short term bank deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

	2017 **AED'000**	2016 AED'000
Current accounts (Note 7)	**1,258**	10

6 Other financial assets measured at amortised cost

During the year ended 31 December 2017, management decided to write off investments in Sukuk which had previously been fully provided for amounting to AED 24 million (2016: AED 24 million).

7. Related party balances and transactions

The Company enters into transactions with the parties that fall within the definition of a related party as contained in International Accounting Standard 24: *Related Party Disclosures*. Related parties comprise companies and entities under common ownership and/or common management and key management personnel.

Related party balances included in the statement of financial position are as follows:

	2017 AED'000	2016 AED'000
Parent Company		
Current accounts (Note 5)	**1,258**	10
Due to bank* (7.1)	**(1,115,771)**	(1,030,559)

*Amount due to a bank is payable to the ultimate parent company "Mashreqbank psc" as an unsecured overdraft facility without any fixed repayment schedule. No profit is charged on the amount due to a bank.

The Table below details changes in Company's liabilities arising from financing activities of cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company statement of cash flows as cash flow from financing activities.

Letter of guarantee provided by the ultimate parent company "Mashreqbank psc" amounted to AED 200 million (2016: AED 200 million) (Note 16).

7.1

	1 January 2017 AED'000	**Financing cash inflows AED'000**	**Financing cash outflows AED'000**	**31 December 2017 AED'000**
Due to bank	**1,030,559**	**(503,419)**	**588,631**	**1,115,771**

Profit for the year included significant related party transactions as follows:

Parent Company	**2017 AED'000**	2016 AED'000
Management Fees*	**26,016**	24,630

* Management fee represents amount paid to the Parent Company in lieu of services rendered for the various functions.

8. Islamic financing products measured at amortised cost

(a) The analysis of the Company's Islamic financing products measured at amortised cost is as follows:

	2017 **AED'000**	2016 AED'000
Murabaha	**664,579**	834,741
Ijarah	**1,202,049**	931,035
	1,866,628	1,765,776
Less: Unearned income	**(81,425)**	(109,903)
Allowance for impairment	**(44,488)**	(40,660)
Total	**1,740,715**	1,615,213

(b) Allowance for impairment movement:

	2017 **AED'000**	2016 AED'000
At 1 January	**40,660**	37,489
Impairment allowance during the year (Note 15)	**2,858**	2,316
Profit suspended during the year	**970**	855
At 31 December	**44,488**	40,660

(c) In certain cases, the Company continues to carry classified doubtful financial assets and delinquent accounts on its books even after making 100% provision for impairment. Profit is recorded on accounts for litigation purposes only and accordingly profit is not accrued or taken to 'income statement. Receivables are written off only when all legal and other avenues for recovery or settlement are exhausted. The book value of these accounts on which profit is not taken to income statement, including fully provided accounts, amounted to AED 49.2 million at 31 December 2017 (2016: AED 33.3 million).

(d) Included in allowance for impairment, a collective allowance of AED 24.7 million (2016: AED 24.7 million)

(e) In determining the recoverability of Islamic financing products, the Company considers any change in the credit quality of the Islamic financing products measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

9. Property and equipment

Property and equipment represents freehold land in the Emirate of Sharjah, United Arab Emirates.

	AED'000
Cost	
At 1 January 2016	176,054
Reversal of impairment	35,170
At 31 December 2016	211,224
Reversal of impairment	-
At 31 December 2017	**211,224**

During the year ended 31 December 2016, impairment loss of AED 35 million which had previously been recognized was reversed to adjust the carrying value of the freehold land up to its cost. This reversal of impairment was done after the management's assessment of a valuation carried out by independent professionally qualified valuers, who are not related to the Company and have appropriate qualifications and recent market experience in the valuation of properties in the United Arab Emirates. The fair value of the freehold property is significantly above the carrying value for a prolonged period of time. Therefore no impairment recognized in current year.

10. Other liabilities

	2017 AED'000	2016 AED'000
Accrued expenses	**2,401**	135
Commission income collected in advance	**2,169**	215
Other	**808**	485
	5,378	835

11. Issued and paid up share capital

The issued and fully paid-up capital of the Company comprises of 5,000,000 shares of AED 100 each. As at 31 December 2017 and 2016, share capital is held by the following parties:

	Number of shares	**Amount AED'000**
Mashreqbank psc – U.A.E.	**4,985,000**	**498,500**
Injaz Services FZ LLC – U.A.E.	**5,000**	**500**
Abdul Aziz Abdulla Al Ghurair	**5,000**	**500**
Abdulla Bin Ahmed Al Ghurair	**5,000**	**500**
	5,000,000	**500,000**

12. Statutory reserve

As required by the Commercial Companies Law and the Company's Articles of Association, 10% of the profit for the year is transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. This reserve is not available for distribution except in the circumstances as stipulated by U.A.E. Commercial Companies Law.

13. Fees and commission income

	2017 AED'000	2016 AED'000
Insurance related income	**2,416**	5,665
Prepayment and settlement income	**1,022**	1,332
Processing fees	**4,072**	4,436
Other	**49**	135
	7,559	11,568

14. General and administrative expenses

	2017 AED'000	2016 AED'000
Management fees (Note 7)	**26,016**	24,631
Other expenses	**178**	196
	26,194	24,827

15. Allowance for impairment, net

	2017 AED'000	2016 AED'000
Impairment allowance during the year (Note 8)	**2,858**	2,316
Impaired and write-off of impaired Islamic financing products	**38,917**	41,125
Recovery of previously written-off Islamic financing products	**(3,307)**	(3,786)
	38,468	39,655

16. Contingencies

	2017 AED'000	2016 AED'000
Letter of guarantee (Note 7)	**200,000**	200,000

The letter of guarantee has been issued on behalf of the Company by the Parent Company without any commission charges.

17. Capital management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the borrowings and equity balance. The Company's overall strategy remains unchanged from the year ended 31 December 2016.

18. Risk management

The Parent Company sets and monitors the risk management function of the Company. The Company has risk management infrastructure supported by adoption of the best practices in the field of risk management to manage and monitor the following major risks arising out of its day to day operations:

- Credit risk management
- Liquidity risk management
- Market risk management (currency risk, profit risk and fair value of financial instruments)
- Operational risk management

The Parent Company's Risk Committee, Assets and Liabilities Committee (ALCO) and Investment Committee work under the mandate of the Board of Directors (BOD) to set up risk limits and manage the overall risk in the Company. These committees approve risk management policies of the Company developed by the Risk Management Group.

The Risk Committee has overall responsibility for the oversight of the risk management framework and the risk appetite of the Company. It has established detailed policies and procedures in this regard along with senior management committees to ensure adherence to the approved policies and close monitoring of different risks within the Company. In addition to setting the credit policies of the Company, the Risk Committee also establishes various concentration limits, approves policy exceptions and monitors periodic portfolio reviews to ascertain portfolio quality.

The Risk Management Group function is independent of the business and is led by a qualified Risk Management Head, with enterprise-wide responsibility for the function. The Risk Management Group is responsible for developing credit, market and operational risk policies. Experienced and trained Risk Managers have delegated authority within the risk management framework to approve credit risk transactions and monitor market and operational risks.

The Risk Management Group oversees credit, market and operational risks. Different credit underwriting procedures are followed for commercial and institutional lending, and retail lending, as described below.

18. Risk management (continued)

Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the credit worthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business 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. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location.

The Company seeks to manage its credit risk exposure through diversification of financing and investment activities to avoid undue concentrations of risks with individuals or Companys of customers in specific locations or businesses. It also obtains security when appropriate.

Policies relating to credit are reviewed and approved by the parent Company's Credit Policy Committee. All credit lines are approved centrally by the Company's Credit Risk Management Division in accordance with the Company's credit policy set out in the Credit Policy Manual.

Retail credit risk management

Retail credit risk is managed on a product basis. Each retail credit application is considered for approval according to a product program, which is devised in accordance with guidelines set out in the product policy approved by the Parent Company's Risk Committee. The evaluation of a customer's creditworthiness is determined on the basis of statistically validated scoring models and policies.

All approval authorities are delegated by the Chief Executive Officer (the "CEO") acting on behalf of the Board of Directors. Different authority levels are specified for approving product programs and exceptions thereto, and individual financing and credits under product programs. Each product program contains detailed credit criteria (such as customer demographics and income eligibility) and regulatory, compliance and documentation requirements, as well as other operating requirements. Credit authority levels range from Level 1 (approval of a credit application meeting all the criteria of an already approved product program) to Level 5 (the highest level where the Risk Committee approval of the specific credit application is necessary).

Credit review procedures

Specialists within the Audit, Review and Compliance Group undertake regular reviews of the portfolio. The focus is on testing the Risk Management Process including periodic review of retail assets portfolio quality and related provision. The specialists subject the Group's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of U.A.E. and the internal policies in order to assist in the early identification of accrual and potential performance problems, they validate the risk ratings of those clients and ensure approved credit policies, guidelines and operating procedures across the Company are implemented or highlight identified gaps in their reports.

18. Risk management (continued)

Credit risk management (continued)

Receivables classification

Impairment of retail financings is calculated by applying a formulaic approach whereby a provision of 25% of financing balance is made when it is past due by more than 90 days and less than 120 days and a provision of 50% of financing balance is made when is past due by more than 120 days and less than 180 days. Retail financing is written off at a maximum of 180 days past their due date, based on the characteristics of the underlying product. The written off amount includes the unpaid profit accrued to the advance till the date of write off and the principal outstanding. Profit accrual to retail advances stop on the date of write off. The only exception to this is high risk mortgage financings to individuals where the financing amount is written off at 180 days or is fully provided for net of collateral. For all other cases of mortgage defaults the bank provisions for the full amount of negative equity at 180 days.

Impaired financial assets

Impaired financial assets for which the Company determines that it is probable that it will be unable to collect all principal and profit due according to the contractual terms of the agreement(s).

Past due but not impaired financings and other financial assets

Past due but not impaired financings and other financial assets are those financings and other financial assets where contractual profit or principal payments are past due, but the Company believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Company.

Allowances for impairment

The Company establishes an allowance for impairment losses that represents its estimate of incurred losses in its financing portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective impairment allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on financings subject to individual assessment for impairment. Specific allowance for impairment is calculated based on the net exposure amount i.e. outstanding loan balance less the net realizable value of the collateral held.

The Company also complies with International Accounting Standards 39 (IAS 39) in accordance with which it assesses the need for any impairment losses on its financings portfolio by calculating the net present value using the original effective profit rate of the expected future cash flows for each financing or its recoverability based on either collateral value or the market value of the asset where such price is available. As required by Central Bank of the U.A.E. guidelines, the Company takes the higher of the financing loss provisions required under IAS 39 and Central Bank regulations.

18. Risk management (continued)

Credit risk management (continued)

Allowances for impairment (continued)

Set out below is an analysis of certain financial assets by risk grade.

	Other financial assets measured at amortised cost		**Islamic financing products measured at amortised cost**	
	2017	2016	**2017**	2016
	AED'000	AED'000	**AED'000**	AED'000
Impaired				
Substandard	-	-	**4,145**	4,636
Doubtful	-	-	**20,460**	7,644
Loss	-	24,310	**24,605**	21,000
Gross amount	-	24,310	**49,210**	33,280
Specific allowance for impairment	-	(24,310)	**(16,282)**	(13,424)
Profit suspended	-	-	**(3,506)**	(2,536)
	-	-	**29,422**	17,320
Past due but not impaired				
Past due beyond 30 days	-	-	**36,156**	41,480
	-	-	**36,156**	41,480
Neither past due nor impaired				
Gross amount	-	-	**1,699,837**	1,581,113
Collective allowance for impairment	-	-	**(24,700)**	(24,700)
Carrying amount	-	-	**1,740,715**	1,615,213

Collateral against financial assets measured at amortised cost is generally held in the form of mortgage interests over vehicles and real estate properties. Estimates of fair value are based on the value of collateral assessed at the time of extending finance.

The Company holds collateral against its Islamic financing products, the fair value of which as at 31 December 2017 is AED 849 million (2016: AED 924 million).

18. Risk management (continued)

Liquidity risk management

Liquidity Risk is the risk that the Company will be unable to meet a financial commitment to a customer, creditor, or investor when due.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

When the Company is subject to a liquidity limit imposed by its local regulator, the Company is responsible for managing its overall liquidity within the regulatory limit in co-ordination with parent company's Central Treasury, who monitors compliance with local regulatory limits on a daily basis.

The following table summarizes the maturity profile of Company's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date:

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

18. Risk management (continued)

Maturities of assets and liabilities – 31 December 2017

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets						
Cash and cash equivalents	1,258	-	-	-	-	1,258
Islamic financing products measured at amortised cost	73,462	70,350	136,121	587,943	872,839	1,740,715
Other assets	-	-	31	-	-	31
Property and equipment	-	-	-	-	211,224	211,224
Total assets	74,720	70,350	136,152	587,943	1,084,063	1,953,228
Liabilities and shareholders' equity						
Due to a bank	1,115,771	-	-	-	-	1,115,771
Other liabilities	5,378	-	-	-	-	5,378
Shareholders' equity	-	-	-	-	832,079	832,079
Total liabilities and shareholders' equity	1,121,149	-	-	-	832,079	1,953,228

18. **Risk management** (continued)

Maturities of assets and liabilities – 31 December 2016

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 Years AED'000	Over 5 years AED'000	Total AED'000
Assets						
Cash and cash equivalents	10	-	-	-	-	10
Islamic financing products measured at amortised cost	98,619	5,527	14,767	623,163	873,137	1,615,213
Other assets	38	-	-	-	-	38
Property and equipment	-	-	-	-	211,224	211,224
Total assets	98,667	5,527	14,767	623,163	1,084,361	1,826,485
Liabilities and shareholders' equity						
Due to a bank	1,030,559	-	-	-	-	1,030,559
Other liabilities	835					835
Shareholders' equity	-	-	-	-	795,091	795,091
Total liabilities and shareholders' equity	1,031,394	-	-	-	795,091	1,826,485

18. Risk management (continued)

Market risk management

Market Risk is the risk that the Company's position will be adversely affected by changes in the levels or volatilities of market factors such as profit rates, currency rates and equity prices. Market risk arises from the Company's trading and non-trading activities.

Currency risk

The majority of the Company's assets and liabilities are denominated in Arab Emirates Dirhams (AED) and accordingly the Company's exposure to the currency risk is very limited. Some current accounts held at banks are denominated in U.S. Dollars to which AED is pegged and accordingly currency risk is limited on U.S. Dollar currency exposures.

Rate of return risk

Profit rate risk, comprising market and valuation risks, are managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value. Overall pricing or rate of return risk positions are managed by the Company's assets and liabilities committee.

The Company is not significantly exposed to risk in terms of the re-pricing of its assets and liabilities since it is primarily in accordance with Islamic Sharia'a.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

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

During the year ended 31 December 2017 and 2016, the Company has no financial assets that are measured at fair value.

18. Risk management (continued)

Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events.

Operational risk is inherent in the Company's business and support activities. Operational risk can manifest itself in various ways, including errors, fraudulent acts, business interruptions, employee misdeeds, or non-compliance to contract by vendors. These events could result in financial losses and other damage to the Company, including reputational harm.

To monitor and control operational risk, the Parent Company maintains a system of comprehensive policies, procedures and a control framework designed to provide a sound and well-controlled operational environment. The goal is to keep operational risk at appropriate levels, in relation to the Company's financial strength, business characteristics, competitive environment and regulatory environment of the market in which the Company operates. Notwithstanding these control measures, the Company incurs operational losses.

The Parent Company has established an independent Operational Risk Function under the Risk Management Group; this Function has designed and implemented a detailed level Operational Risk Policy, which has since been approved by the Risk Management Committee.

The Parent Company's operational risk framework is supported by an operational risk software tool customised to meet the specific framework requirements of its entities. This helps integrate the individual components of the operational risk management framework into a unified, web-based tool and enhances the capture, reporting and analysis of operational risk data.

Operational risk monitoring

The Parent Company has a process for monitoring operational risk-event data, permitting analysis of errors and losses as well as trends. Such analysis is performed at business level and at each product and risk type level.

19. Calculation of Zakat

The ultimate responsibility to pay the Zakat rests with the shareholders of the Company.

20. Classification of financial assets and liabilities

The table below sets out the Company's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2017:

	Amortised cost AED'000	Carrying amount AED'000
Financial assets		
Cash and cash equivalents	**1,258**	**1,258**
Islamic financing products measured at amortised cost	**1,740,715**	**1,740,715**
Total	**1,741,973**	**1,741,973**

20. Classification of financial assets and liabilities (continued)

	Amortised cost AED'000	**Carrying amount AED'000**
Financial liabilities		
Due to bank	**1,115,771**	**1,115,771**
Other liabilities	**5,378**	**5,378**
Total	**1,121,149**	**1,121,149**

The table below sets out the Company's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2016:

	Amortised cost AED'000	Carrying amount AED'000
Financial assets		
Cash and cash equivalents	10	10
Islamic financing products measured at amortised cost	1,615,213	1,615,213
Total	1,615,223	1,615,223
Financial liabilities		
Due to bank	1,030,559	1,030,559
Other liabilities	835	835
Total	1,031,394	1,031,394

21. Approval of financial statements

The financial statement for the year ended 31 December 2017 was approved by the Board of Directors and authorized for issue on 29 March 2018.